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Commission on, 1937

# **DOMINION-PROVINCIAL SUBSIDIES AND GRANTS**

A STUDY PREPARED FOR THE  
ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

BY

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AND

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OTTAWA

1939

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## Dominion-Provincial Subsidies and Grants

### EDITORIAL FOREWORD

Dr. C. T. Kraft was retained by the Royal Commission on Dominion-Provincial Relations to prepare a history of the subsidies and grants given by the Dominion government to the provinces since Confederation. Dr. Kraft prepared an account of the subsidy history of each province, which is given in Part II of this study, but time did not permit him to complete the work, and Mr. Wilfrid Eggleston wrote Part I which gives a general review of the subsidy history and system, and its part in the fiscal structure of Canadian governments. The method of presentation and any expressions of opinion are solely the responsibility of the authors, and not of the Commission.

The genesis of Canadian subsidies is found in the fact that virtually the only developed source of governmental revenue at the time of Confederation was that of customs and excise. It was clear that to have a federation at all, and to achieve the economic objectives of the movement, the central government had to be given exclusive authority over tariff and excise matters. On the other hand the functions left with the provincial governments would cost substantially more than all the remaining governmental taxes and revenues which then existed or could be practically considered. In these circumstances the Fathers of Confederation reluctantly accepted the device of a Dominion subsidy to the provincial governments as a necessary evil. The subsidies were deliberately set at the bare minimum estimated as essential and were to remain fixed at that level. It was thus planned to make it necessary for the provinces to meet the normal growth in their expenditures which would follow increases in population by developing their own revenues. It was expected these would come largely from their public domain, although direct taxes might be resorted to in cases of emergency.





Minor adjustments in the subsidy amounts were quickly claimed and made. The total amount of the adjustments made in the first forty years was quantitatively unimportant, but the development was of significance in establishing certain new principles and undermining the constitutional inviolability of the 1867 terms.

The Dominion's own financial position until the turn of the century had been a very practical consideration in limiting the increases to modest amounts which could be justified as simply a more accurate interpretation of the original terms. The rising tide of prosperity, however, cleared the way for the more substantial revisions of 1907.

Conditional grants began to play a part in the system from 1912 on, but after a temporary spurt in the early 1920's, policy changed and they rapidly tapered off. Rising provincial revenues and the relatively static level of subsidy payments continued the almost unbroken downward trend in the ratio of subsidies to provincial expenditures up to 1930.

The basis for a reversal in trend had been established before the depression when the Dominion, enjoying buoyant revenues, embarked on a scheme of conditional grants for old age pensions, and implemented the Duncan Commission recommendations for increased subsidies to the Maritimes. The circumstances of the depression then brought wave after wave of increase in unprecedented proportions and with great rapidity. The collapse of the important new element in provincial revenue systems of liquor trading profits, the large capital commitments in which most provincial governments were involved, the tremendous burden of relief, and the drought disaster in the west threatened to overwhelm provincial finances and provincial credit. Several special subsidies, the assumption of a larger proportion of unexpectedly rapidly rising old age pension payments, and the huge unemployment





relief grants-in-aid and agricultural relief disbursements increased subsidy transfers six-fold in less than a decade. The proportion of total Dominion revenues transferred to provincial governments rose above the immediate post-Confederation ratio, and the proportion of subsidies and grants to total provincial expenditures recovered to pre-war, although not to nineteenth century, levels.

Mr. Eggleston traces these developments, examines the different types of subsidies, and their appropriateness in the Canadian fiscal system, and notes some of the more general considerations raised by intergovernmental transfers.

Dr. Kraft, in Part II, then gives a detailed history of the subsidy relations of each province with the Dominion.

The first draft of this study was completed in August, 1938, and after having been circulated to the Dominion and provincial governments for comment, was revised where necessary and put in its present form in the spring of 1939.





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## Introduction

A system of financial transfers from the federal to the provincial governments was reluctantly incorporated into the terms of union by the Fathers of Confederation. The records of the Quebec Conference make it clear that, sensible as many of them were to the desirability of matching responsibilities with revenue sources so that each authority would have financial independence, they were driven by the circumstances to make a choice between subsidies and indirect provincial taxes, and elected the former as the less pernicious of the two. (1)

The chain of reasoning which led to this decision can be readily followed. Canada West and Canada East, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland, were alike in this, that they relied on customs duties to provide the major part of their revenues. (1a) Indeed, apart from excise duties in the Province of Canada and small sums from land taxes in Prince Edward Island, receipts from customs constituted the entire taxation revenue of the provinces at that time. The transfer of this all-important current source of income to the Dominion government was essential to the scheme of federation then being contemplated. Assuming such a transfer, how were the new provinces to finance their obligations? It is true that Confederation involved simultaneous assumption of the heaviest of provincial burdens by the new federal government. The point was, would the revenue sources still accessible to the provinces enable them to meet the responsibilities they retained?

There was a sharp difference of opinion on this matter. The delegates from Canada West thought the remaining sources could be made to serve (and therefore that subsidies could be avoided). They proposed to empower the provinces to

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(1) See Confederation Debates, especially explanation of Hon. Geo. Brown, p. 93; Maxwell, Federal Subsidies to the Provincial Governments in Canada, pp. 7-8; Creighton, D. G., British North America at Confederation, Section XII.

(1a) See Creighton, D. G., Ibid., Section X. In the fiscal years ended 1866, the Province of Canada derived 60% of its revenue from customs, Nova Scotia 80%, New Brunswick 78%, and Prince Edward Island 75%. If combined provincial and municipal revenues are considered, the reliance in the case of the Maritime Provinces stands out more markedly as a contrast with the Province of Canada.



collect direct taxation if necessary, to supplement their income from fines, licences, fees, and the public domain. (The delegates from Canada West were able to contemplate the loss of customs revenue with greater equanimity than their fellows because Canada West already possessed a well-established municipal system financed largely by direct local taxation, upon which a considerable part of the burden of local government, such as education, had been shifted, or could be, if the province found post-Confederation financing difficult. Moreover, they relied to a smaller extent than the other provinces on customs receipts to finance provincial services.)

The proposal of Canada West was unacceptable to the other delegates. Nova Scotia and New Brunswick had no municipal institutions and Canada East had few. Direct taxation was practically unknown except in the primitive form of statute labour for roads, and the delegates from these parts of British North America urged the political impossibility of introducing it. <sup>(1b)</sup> Municipal organization might be desirable for the future, but it would take time, and meanwhile there was no prospect of shifting responsibilities to local governments. Nor did these delegates believe that their non-taxation revenues (domain, fees, licences, etc.) could be expanded sufficiently to meet even their diminished obligations.

The delegates from Canada West had to give ground. It appeared that the revenues of the provinces must be supplemented in some other way than by direct taxation. (Though it was agreed to give the provinces the concurrent power to levy direct taxation.) But rather than incorporate a scheme of subsidies into the financial terms of Confederation, some authorities in Canada West were prepared to leave certain specified powers of indirect taxation with the provinces. However, when the implications of such a step were discussed (e.g. the power it would give provincial governments to

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(1b) For the prejudice against direct taxation in this period, see Skelton, O. D., Life and Times of Sir A. T. Galt, p. 270.





interfere with interprovincial trade), it too was abandoned. That ruled out two of the proposed solutions and brought the delegates face to face with the third, namely, supplementation of provincial receipts by grants from the federal treasury. The difficulty of reconciling the sharp cleavages of opinion on these financial arrangements nearly broke up the Conference, and it is clear now that subsidies became the sine qua non of an agreement at Quebec. Canada West delegates were prepared to explore every possibility of avoiding them, the others insisted that they were essential; and in the compromise that followed they were accepted on the understanding that they would be made small and kept static.

When the details of the subsidies were being settled, an attempt was made to reconcile the principle of "equality of treatment" with the peculiar needs of certain provinces. The former was deemed to be satisfied by basing the proposed subsidy on a per capita division. The practical problem given to the finance ministers assembled at Quebec was this, what should the per capita sum be?

The method adopted in calculating it throws light on the determination of the Fathers that the grant should be set at the lowest adequate level. Each of the finance ministers present was invited to draw up a hypothetical post-Confederation budget of his own province, showing prospective expenditures after redistribution of obligations,, prospective revenues from sources remaining to them, and the gap between which must be bridged. When these budgets were compared, Nova Scotia's was adopted as a foundation because, as Sir Alexander Galt explained afterwards, it provided a lower subsidy basis than the others. Dr. Tupper (later Sir Charles) who prepared it, estimated that provincial services which had required \$667,000 in 1863 could, after the transfer involved in Confederation, be discharged for only \$371,000.

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(1c) Galt, Speech on the Proposed Union, at Sherbrooke, p. 18.





However, prospective provincial revenues from taxes, licences, and the public domain would, after Confederation, be reduced to only \$107,000. This left a deficit of \$264,000 to be met by a transfer from the federal government. Calculated on the population of Nova Scotia in 1861, this came to 80¢ per head, the figure ultimately adopted as the basis for the subsidy. <sup>(2)</sup>

Delegates from the Province of Canada and from Nova Scotia accepted the 80¢ per head subsidy as adequate, but New Brunswick was not content. An examination of the latter's hypothetical post-Confederation budget showed a deficit of \$63,000, even after allowance for the proposed subsidy. In spite of the desire to treat all provinces alike, the delegates were not prepared to raise the subsidy all around so as to give New Brunswick an additional \$63,000, as this would have increased the total transfer to all provinces by more than three quarters of a million dollars. The delegates chose rather to give New Brunswick a special grant of \$63,000 for a period of ten years, during which the province was to develop its revenues, or curtail its government costs.

The treatment of provincial debts also gave rise to financial transfers between the federal government and the provinces. All provincial debts <sup>(2a)</sup> were to be assumed by the federal government, (as were most of the assets) but in keeping with the principle of equal treatment, a method of "debt allowances" was evolved whereby the provinces with relatively lower debt should benefit accordingly. The debt of New Brunswick and Nova Scotia was calculated to be roughly \$25 per capita, and that of Canada about \$27. An allowance

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(2) Col. J. H. Gray's account of this episode indicates that the prospective deficits originally reported by all provinces would have required a subsidy of about five million dollars, and that the adoption of Tupper's more modest figures reduced this to about one-half. See also Confederation Debates - (Hon. George Brown) p. 93.

(2a) Minor obligations of a specially local nature were not transferred by Ontario and Quebec.



was settled upon in round figures not materially different from \$25 per head, except in the case of New Brunswick, which (apparently with the idea of giving it a little additional assistance) was granted an allowance of \$7 million instead of \$6.3 million, or \$27.77 per head instead of \$25.<sup>(3)</sup> The provinces were to receive 5% per annum on the sum by which their actual debt fell short of their allowance, and to pay 5% on the sum by which it exceeded it. The actual debt of Nova Scotia and New Brunswick at Confederation was only slightly larger than their allowances,<sup>(4)</sup> but Quebec and Ontario conjointly were responsible for over \$10 million of excess debt. (It is interesting to note that a transaction devised solely for the equitable assumption of provincial debts at Confederation, and which so far from adding to provincial grants then involved their reduction by about \$600,000 a year, should have later undergone a metamorphosis into a major type of federal subsidy, through which over \$60 million net has passed to the provinces since Confederation.)

This was the subsidy system, then, reluctantly adopted by the delegates to the Quebec Conference in 1864. At the London Conference, two years later, it was judged to be somewhat inadequate, and was supplemented in a manner which again departed from the simon-pure principle of "per capita equality". (The special grant to New Brunswick was the other exception.) The Maritime Provinces, still somewhat dubious about the adequacy of the original financial arrangements, were favoured (on a per capita basis) by special grants for

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(3) The records of this phase of the financial agreement are complex because there are no less than four sets of figures to consider: (a) the estimates of provincial debt made in 1864; (b) the actual debts as ascertained on the eve of Confederation in 1867; (c) the allowances which would have been made using a figure of \$25 per head; and (d) the round figures actually settled upon. To illustrate, these figures in the case of the Province of Canada were: (a) \$67,264,000; (b) \$73,006,000; (c) \$62,666,000; and (d) \$62,500,000.

(4) See Creighton, D. G., op. cit., Appendix, Table V.





the support of governments and legislatures, \$80,000 for Ontario, \$70,000 for Quebec, \$60,000 for Nova Scotia and \$50,000 for New Brunswick, while the provision was added to the earlier agreement that the per capita subsidy of 80¢ should increase according to each decennial census, in the case of Nova Scotia and New Brunswick, but not in the case of Ontario and Quebec. (until each of the Maritime Provinces should attain a population of 400,000). This involved some yielding from a principle dear to the hearts of several delegates at Quebec, that the subsidies as agreed upon should not be subject to any type of automatic or other increase, but the delegates at London apparently believed they had protected the federal government against further revisions by the insertion in the B. N. A. Act of the words: "Such grants shall be in full settlement of all future demands on Canada."

The annual subsidies with which the provinces were provided at Confederation were therefore as follows:

	Per Capita Subsidy \$000	Grants in support of government \$000	Special Grants \$000	Total \$000
Ontario	1,116	80		1,196
Quebec	890	70		960
Nova Scotia	264	60		324
New Brunswick	202	50	63	315
	2,472	260	63	2,795

(These totals were subject to a reduction representing interest on excess provincial debt at 5% per annum. Ontario and Quebec conjointly were responsible for over \$500,000 annually in a proportion to be settled later by arbitration. The net payments to all provinces in 1867-8 were \$2,230,000 and in 1868-9 \$2,605,000. The obligations for excess debt were eliminated in 1873).





The story of financial transfers from the federal to the provincial governments since Confederation may conveniently be examined by periods into which it naturally falls, as follows:

1. Post-Confederation Adjustments and Accessions, 1867-73
2. A Long Period of Relative Stability, 1873-1906
3. The General Revision of 1907
4. Experiments with the Conditional Grant, 1912-28
5. A New Series of Special Grants, 1927-37
6. Grants for Old Age Pensions, 1927-38
7. Depression Transfers, 1931-38
8. Current Subsidies and Grants, 1938-39. (5)

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(5) The following are the principal authorities referred to in the text of this study:

- Maxwell, James A., Federal Subsidies to the Provincial Governments in Canada, 1937.
- Creighton, D. G., British North America at Confederation. (Study prepared for the Royal Commission on Dominion-Provincial Relations).
- Gettys, Luella, The Administration of Canadian Conditional Grants, 1938.
- Department of Finance, Ottawa - Federal Subsidies and Grants to Provinces of Canada, 1937.
- Grauer, A. E., Public Assistance and Social Insurance. (Study prepared for the Royal Commission on Dominion-Provincial Relations).
- Corry, J. A., The Growth of Government Activities since Confederation. (Study prepared for the Royal Commission on Dominion-Provincial Relations).
- Difficulties of Divided Jurisdiction. (Study prepared for the Royal Commission on Dominion-Provincial Relations).
- Mackintosh, W. A., The Economic Background of Dominion-Provincial Relations. (Study prepared for the Royal Commission on Dominion-Provincial Relations).
- Bates, Stewart, Financial History of Canadian Governments. (Study prepared for the Royal Commission on Dominion-Provincial Relations).



The charts attached to this study present in graphic form the development of the subsidy system since Confederation.

Chart I, in terms of dollars, shows the uneventful character of the first 37 years of subsidy history, during which total grants rose and fell by relatively negligible amounts. Two substantial upward steps in 1905 and 1907 raised them to a new level, and the introduction of conditional grants in 1912 contributed to an upward trend which reached a first peak in 1923, when total subsidies passed the \$20 million mark for the first time. There was a short recession thereafter, as conditional grants expired, but beginning in 1931 the levels were suddenly raised to a zone far above any earlier experience. It took 55 years to attain the \$20 million mark, but in two years the total of subsidies and grants climbed from less than \$20 million to the \$60 million zone, and in another five years beyond the \$100 million mark.

This graph also makes clear the relative importance of the several types of subsidies. Until 1912 the unconditional subsidy was exclusively employed. Conditional grants played a relatively minor part between 1912 and 1930, the peak being reached in 1923, but after 1930 they rose steadily in importance and by 1937 were exceeding the total of the older statutory and special subsidies. Depression grants, emerging in a relatively unimportant manner in 1921 for a brief period, disappeared in 1926, but commencing again in 1931 they rapidly dominated the subsidy scheme.

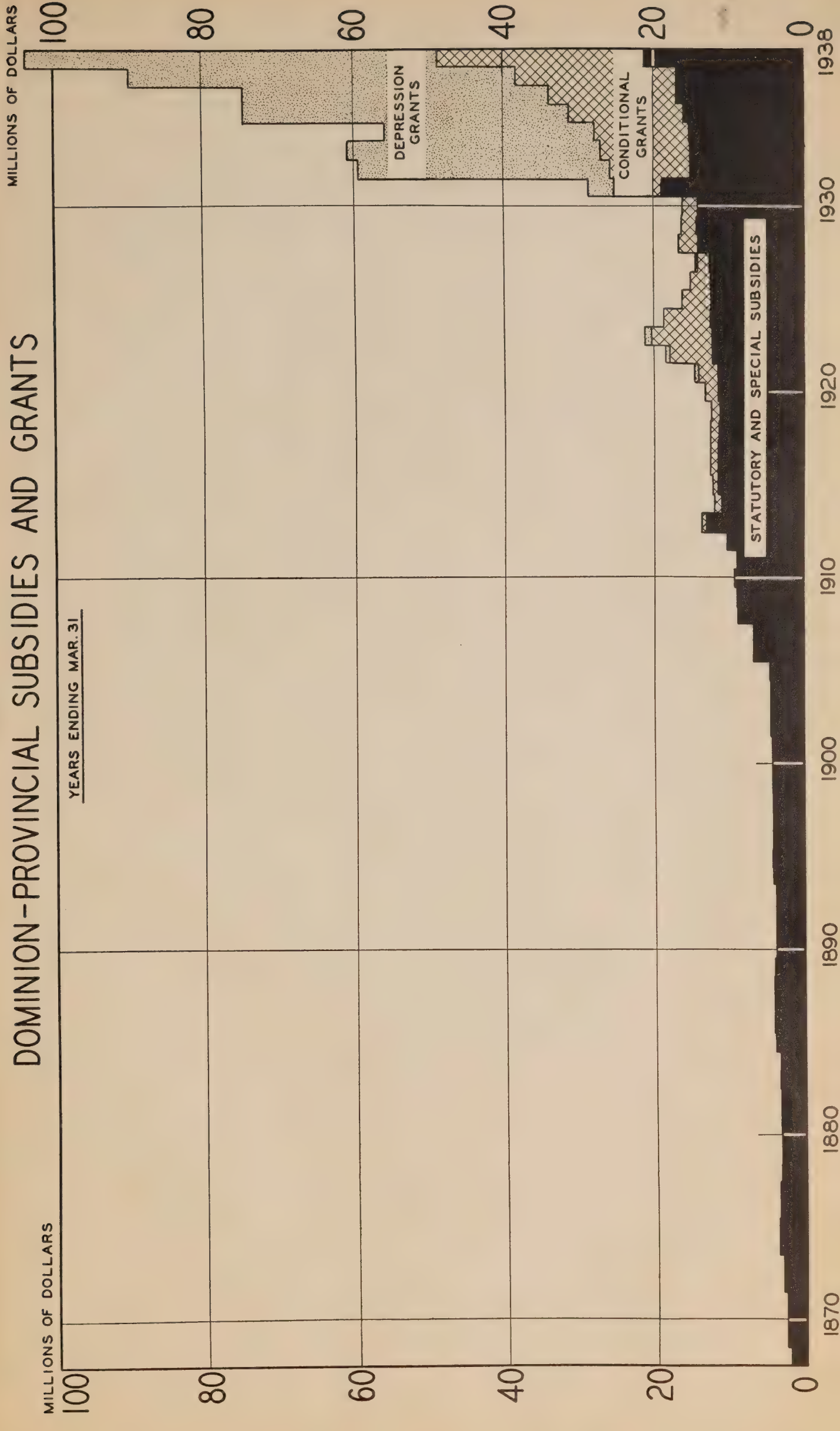
Chart I, however, gives an inadequate (and misleading) notion of the real significance of subsidies in Canadian public finance. It has therefore been supplemented (and corrected) by Chart II, in which the ratio of total subsidies is shown (a) to Dominion government tax revenues, and (b) to provincial ordinary expenditures.





CHART I

# DOMINION-PROVINCIAL SUBSIDIES AND GRANTS







The impression given by the first graph is that subsidies were at first relatively small and astonishingly stable, that they began to grow sharply in 1905, and thereafter accelerated in importance from 1907-12 to the present day.

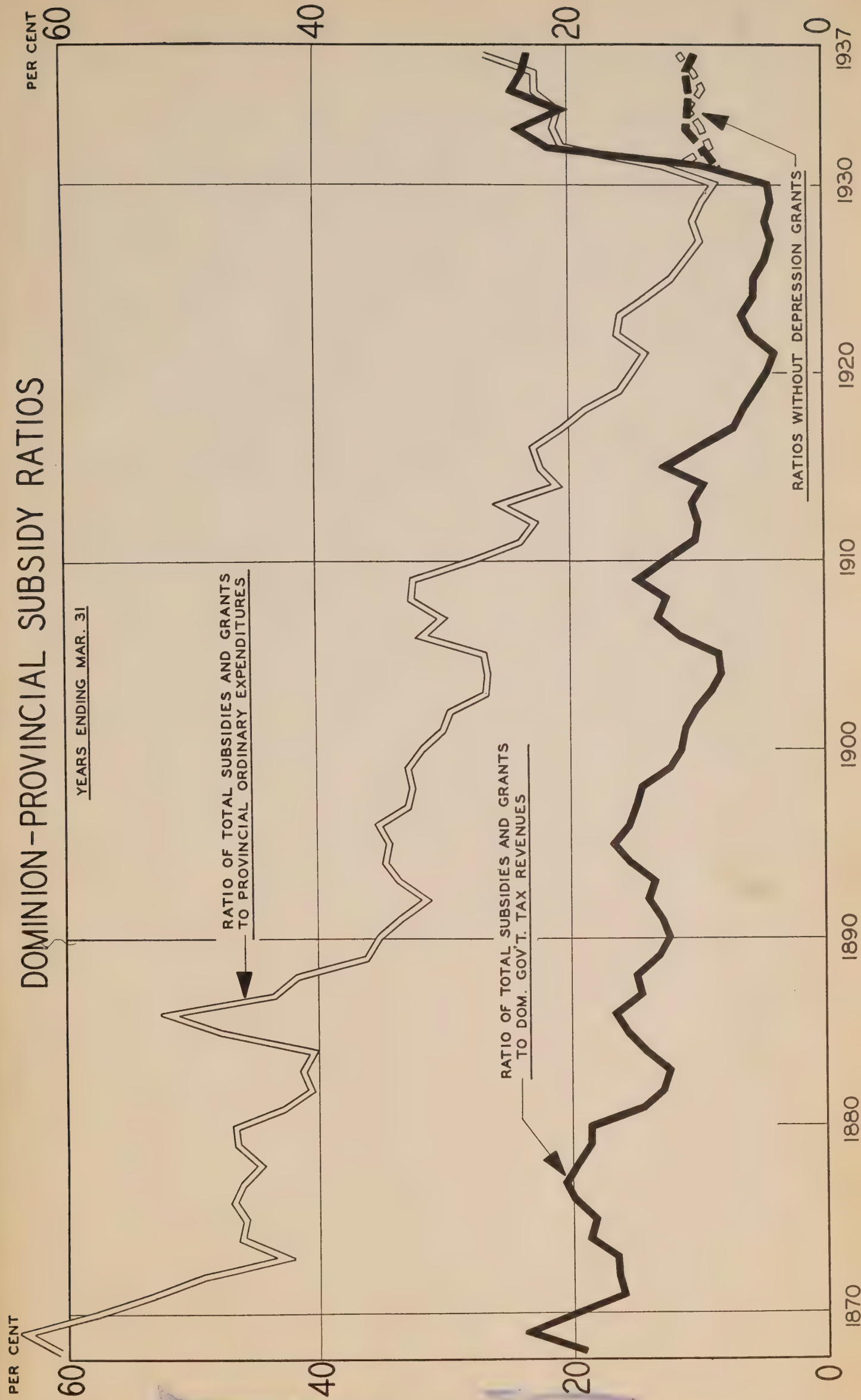
Actually their relative weight in Canadian public finance was very different. They began by representing a substantial percentage of Dominion tax revenues and a much higher proportion of provincial ordinary expenditures. In both respects they fell irregularly but very markedly over the first 65 years of Confederation and then rose very sharply again, one ratio rising as much in the next six years as it had fallen in the former 65.

In terms of Dominion taxation revenues, subsidies represented about 20% at Confederation, fluctuated between 15% and 20% for the next few years, gradually working down to lower levels until by 1905 they had fallen below the 10% line. The general revision of 1907 elevated them again into the 15-20% zone, but they resumed their decline after a couple of years and by 1921 they absorbed less than 5% of the revenues derived by the Dominion from taxation. The ratio again rose slightly, affected by the new conditional grants, but soon declined and again, during the period 1927-30, they represented less than one-twentieth of Dominion taxation revenues. In 1931, however, there was a sudden sharp reversal, and the ratio shot quickly upward to levels comparable with those at Confederation. In the period 1932-37 total subsidies and grants absorbed between one-fifth and one-fourth of Dominion taxation revenues.

Measured against provincial ordinary expenditures, subsidies followed the same broad trend, declining irregularly from 1867 to 1930, and sharply rising thereafter. At Confederation, subsidies equalled about 60% of provincial ordinary expenditures, fell to the 40-50% zone quite rapidly,



# DOMINION-PROVINCIAL SUBSIDY RATIOS







were temporarily raised by the subsidy revision of 1884, again declined sharply, until by 1890 they represented about 35%. The decline continued more slowly to 1905, when the ratio was 27%. The revision of 1907 temporarily raised the ratio to the 30-35% zone but the downward trend was rapidly resumed and continued steadily to 1930, when subsidies covered less than 10% of provincial ordinary expenditures.

At that point, affected by the steep rise in unemployment relief grants, and the growing importance of old age pensions, it shot sharply upward to 20% and by 1937 total subsidies again represented one-quarter of provincial ordinary expenditures, the highest level in a quarter of a century.





Chapter 1. Post-Confederation Adjustments and Accessions: 1867-73

During the first seven years of Confederation numerous adjustments and additions were made to the subsidy system. They were important at the time to the provinces affected, and some of them set precedents or established principles which had an important bearing on later developments. Seen in historical perspective, however, the revisions did not materially depart from the proportions or the principles adopted at Confederation, and the net effect in dollars was simply to raise the total transfers from \$2,750,000 (among four provinces) to \$3,750,000 (among seven). As Dominion revenues from customs duties rose by \$8 million during the same period, and Dominion revenues from all sources by \$11 million, the relative weight of subsidies in the Dominion fiscal system was in reality already declining.

The first revision was made only two years after Confederation, and was designed to place Nova Scotia on an equal footing with its sister province, New Brunswick, and, incidentally, enable Nova Scotia to balance its budget. The idea that the purpose of a subsidy was to fill in the gap between provincial revenues and provincial expenditures had been implanted at the very beginning by the methods used to arrive at the per capita subsidy in 1864. Behind the eloquent "Better Terms" campaign of Hon. Joseph Howe and the carefully prepared claims of Hon. A. W. McLelan, (1867-1869) the blunt fact that Nova Scotia was unable to balance its budget seems to have weighed most heavily both with the petitioners and the Dominion government. In 1864, Tupper had thought that a subsidy of \$264,000 would be sufficient to enable Nova Scotia to meet its provincial outlays; an additional \$60,000 was agreed upon at London; even so, the Province had a deficit of about \$70,000 in 1868, and the remedies suggested by the federal government (the imposition of direct taxation or the organization of municipalities) were unpalatable or impracticable. To make a



long story short, the Dominion government agreed in 1869 to place Nova Scotia on an equality with New Brunswick by a special ten-year grant at the same per capita rate (which gave Nova Scotia \$83,000 to New Brunswick's \$63,000), and an increase in her debt allowance to \$27.77 per capita (the same as New Brunswick), thus adding about \$1.2 million to the capital sum and the equivalent of \$60,000 a year to the annual subsidy. By these means Nova Scotia's subsidy was raised from \$325,000 to \$465,000 a year.

In 1870, 1871 and 1873, the provinces of Manitoba, British Columbia and Prince Edward Island were added to the Confederation. The financial terms provided for each one were attempts to reconcile fiscal need with the principle of equality of treatment adopted at the Quebec Conference. To meet peculiar needs and satisfy political considerations, it was necessary to interpret "equality of treatment" in a broad and flexible way.

Manitoba was converted from private territory into a full-fledged province without any intervening stage. The step was taken prematurely, in the opinion of many students, before either population or experience with democratic institutions justified it, but there were predominant political reasons why it should be created, and before the first Riel Rebellion had been quelled, the Manitoba Act was introduced into the Dominion Parliament. There were apparently no dependable statistics of population, and the figure was assumed to be 17,000<sup>(6)</sup>. On this basis, Manitoba was entitled to \$13,600 a year (at 80¢ per head) and a debt allowance of \$472,000 (at \$27.77 per head, the allowance given to Nova Scotia and New Brunswick) which

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(6) Maxwell, op. cit., p. 33. The population of Manitoba in 1871 (as now reported by the census tables) was 25,228, but this is based on the area since 1912, which is nearly 20 times the area of 1870. The figure includes Indians and half-breeds. Exact figures do not exist, but the authorities agree that the white population was under 1600 at Confederation (1870).





yielded an additional \$23,600. The grant in support of government was set at \$30,000, and the three items came to \$67,200 per year. It was not a large sum with which to launch a new province, and there were no other sources of revenue of any importance that could be developed. Because of the railway and land-settlement policies which the Dominion was contemplating, the public domain was not conveyed to the new province, and so it could not anticipate revenues from that source. The Manitoba representatives did not ask for a grant in lieu of domain, and Ottawa did not offer to give one. The inadequacy of provincial revenue sources soon became apparent, however, and on four occasions in the next 15 years (1875, 1879, 1882 and 1885) the subsidies were revised upward to meet budgetary requirements.

When British Columbia entered Confederation, another difficult reconciliation of principles and facts had to be made. The Pacific Coast Province was in a strong bargaining position because of the ambition of the Dominion government to extend its territories "from sea to sea", but the Province's own growing fiscal difficulties prepared the way for negotiation and a speedy settlement. The delegates to Ottawa in May, 1870, were instructed to ask for a subsidy of \$213,000 a year, and although they did not obtain it on exactly the terms of calculation they had prepared, they did not fail in their mission.

A subsidy based on the actual population of British Columbia in 1871 (9,000 whites, 25,000 Indians and Chinese) would have been quite inadequate to meet provincial needs. The Province had been collecting over \$300,000 a year from customs revenue, or nearly four times the per capita yield in Canada, and as this revenue source was now to be surrendered to the Dominion, the Province contended that it should be treated as though it had 120,000 persons (i. e. to equalize its position with that of other provinces as a contributor to customs revenue). A subsidy calculated on a population of 120,000, plus a grant for government of \$35,000 annually would total \$213,000, and this sum was asked.





The Dominion authorities, however, were not prepared to calculate the subsidy on a fictitious population so far above the actual number. The best they would do was to assume a population of 60,000 and this, worked out on the usual basis, yielded only \$116,000 a year, a sum quite unacceptable to the British Columbia authorities. The Dominion was, however, prepared to supplement this by a special grant. In return for a transfer to the Dominion of a belt of land running for 20 miles each side of the proposed transcontinental railway, the Dominion would pay \$100,000 per year. This brought the sum to approximately what British Columbia had originally asked, and the terms were accepted.

Prince Edward Island had been represented at the Quebec Conference, and the majority of its delegates had gone home supporters of the plan. But they found public opinion overwhelmingly against it, and a last-minute effort of the delegates from the other Maritime Provinces at London in 1866 to include Prince Edward Island in Confederation failed. The new Dominion government after 1867 kept the door open and the Imperial Government used its influence to encourage union. It was not, however, until the Island began to run into difficulties in the financial market (it had committed itself heavily for railway guarantees and its debt had soared) that the advantages of entering the Dominion became apparent.

When negotiations did get under way, the formula of "equality of treatment" had to be abandoned in respect to one item so as to make the terms acceptable to the Island, and a new kind of subsidy devised to solve the Island's land problem. In 1873, the public debt of the Island (which in 1864 had been less than \$3 per capita) had risen to \$41 per head or \$3,850,000, and (7)

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(7) About \$2,250,000 of this was prospective, and was later assumed by the Dominion as it became due. In the meantime Prince Edward Island drew interest on the difference between the actual debt and the allowance of \$4,230,000.



a debt allowance of only \$27.77 (as granted to Nova Scotia, New Brunswick, Manitoba and British Columbia) would have resulted in the Island paying the Dominion government over \$60,000 a year in interest. The Island negotiators were able to make a much better deal than that. The figure finally settled upon was \$50 a head giving the Island a net income of \$43,000 a year interest on this item, (For a couple of years, until the prospective portion of the railway debt became actual, the sum was much larger: in 1874 it was \$130,000 and in 1875 \$78,000. See Footnote 7) and in addition to the usual 80¢ per capita (on the census of 1871) which amounted to \$75,000, and the allowance for government and legislature of \$30,000, a special grant of \$45,000 a year was given as a recognition of the land problem of the Island. Prince Edward Island thus started its provincial career with a subsidy of \$193,000 a year. (The land grant was in lieu of a capital sum, which had been offered in 1869 so that the Province could buy out the "absentee landlords", who still owned about two-fifths of the Island as the result of a settlement-lottery held at London in 1767<sup>(8)</sup> and from whom the Island government<sup>(8a)</sup> had been seeking to free the tenants for many years.)

Meantime one of the original provinces had begun to find itself faced by deficits, and this indirectly led to a revision of the debt allowances which benefited all provinces. It will be recalled that the debt allowance granted to Canada West and Canada East (conjointly) was \$62.5 million; when the debts of these provinces (assumed by the Dominion) were calculated at the time of entering Confederation it was discovered that they exceeded the allowance by some \$10.5 million. Interest at 5% on this sum was to be paid to the Dominion government. It had been expressly written into the British North America Act that the division of responsibility for this "excess debt" was to be settled by a board of three arbitrators, one chosen by the government of Ontario, one by the government of Quebec and one

(8) See The Case of Prince Edward Island, a brief presented to the Royal Commission on Dominion-Provincial Relations in February, 1938, p.8.

(8a) This grant could, at the will of the Province, be capitalized at 5% (up to \$800,000) and the capital sum be withdrawn for the purpose of buying out absentee landlords, in which event the annual grant was to be reduced proportionately.





by the Dominion, the latter not to be a resident of either Ontario or Quebec (Sec. 142) and in 1870 this board was named. It had only begun to sit when the Quebec representative resigned because of failure to agree on the basis of division. Meantime the Quebec government had complained that the Dominion appointee had resided in Ontario for some time and consequently could not qualify. But the remaining two members continued to sit and brought in a report proposing a division of the excess debt as follows: Ontario, \$5,544,000, Quebec \$4,962,000. The acceptance of these figures would have meant annual interest payments by each province to the Dominion of around \$250,000. Ontario was prepared to accept the award, but Quebec, not so prosperous, puzzling how to find the additional quarter of a million, and relying on the much more favourable division which its own appointee to the arbitral board had submitted, showed signs of making an issue of the matter. The Dominion government, whose revenues had risen sharply since Confederation, shied away from the political consequences of a sharp break with Quebec on the eve of a federal election, and decided to assume the excess debt itself and thus end the controversy. Sir John A. Macdonald explained the step as a means of correcting an error of the Confederation agreement and of restoring harmony between the two provinces; <sup>(9)</sup> it had the auxiliary value of increasing the subsidies to the other four provinces by \$150,000 a year, since it was necessary to raise their debt allowances by a proportionate amount. (Prince Edward Island, having just been granted a special allowance of \$50 per head, did not participate in the revision).

One more adjustment completes the narrative of this period. New Brunswick having found stumpage dues on lumber expensive and difficult to collect in pre-Confederation days had employed an export duty instead, and its right to collect such a duty was confirmed in the text of the British North America Act. (Sec.124).

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(9) Maxwell, op.cit., p.55.



Negotiators of the Washington Treaty in 1873 found this clause embarrassing, and the Dominion government offered a grant of \$150,000 a year if New Brunswick would waive its right to collect the duty. The offer was considerably greater than the current receipts (or the prospective receipts) from the tax, and was readily accepted, the explanation of the excess being that the deal enabled the Dominion to assist a province in difficulty without involving itself in a series of demands for parallel treatment from the other provinces.

Thus at the end of seven years, subsidy payments had been arranged for three additional provinces, the general level of subsidies had been increased by an adjustment in debt allowances, and several special grants to meet local hardships had been made, all at an additional cost of about \$1 million a year.

An examination of provincial balance sheets in 1874<sup>(10)</sup> brings out two startling features:

1. The federal subsidy had become, not the minor (and perhaps only temporary) supplement to provincial revenues envisaged by some delegates to the Quebec Conference, but the mainstay of provincial income in several provinces. New Brunswick in 1874 drew 92% of its revenues from the Dominion subsidy, Nova Scotia 81% and Prince Edward Island 75%.<sup>(11)</sup> Manitoba, a new province, depended on Ottawa for 88% of its revenues, and British Columbia 62%. Ontario and Quebec, able to collect more from public domain, licences, fees, etc., relied on subsidies to a much smaller extent (40 to 50%).
2. In spite of a series of revisions and additions which had increased the annual total distribution of subsidies by more than \$1 million in 1867-78, Ontario was the only province in a comfortable financial position in 1874.<sup>(12)</sup>

Quebec, having just been relieved of a potential burden

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(10) See Creighton, op.cit., Appendix Tables III and IV.

(11) Ibid., p.221

(12) Ibid., p. 217





of \$250,000 a year interest on pre-Confederation debt, was in second best position. All the other provinces were running deficits and were faced with the need of developing local sources of revenue fairly rapidly or of securing more help from the Dominion. As the next section shows, appeals to Ottawa for aid in the next three decades were less fruitful, and, allowing for a comparatively minor upward revision in 1884, the sums distributed in subsidies in 1904 were of the same order as those distributed in 1873, although in the meantime (12a) Canada's population had risen by 50%.

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(12a) The high percentage of provincial revenues derived from Dominion subsidies in the early years of Confederation provides a test of the maxim widely quoted that it is always courting waste and maladministration for one government to provide funds for another government to spend. There does not appear to be evidence of gross extravagance by provincial governments during those years. The fact that even with such large transfers from the Dominion government there was often not enough money to provide current provincial services no doubt acted as an effective restraint against undue waste.



## Chapter 2. A Long Period of Relative Stability (1873-1905)

The static character of subsidy levels between 1873 and 1905 was not unconnected with the economic and financial trends of the period. The year 1873 ushered in "The Great Depression", the full severity of which was felt in Canada<sup>(13)</sup> by 1875. Declining costs moderately increased the real level of subsidies. Meantime the Dominion had become much less capable of coming to the aid of the provinces. It had committed itself heavily to transportation ventures in the period 1867-73, and the drying-up of the investment market entailed serious difficulties for Dominion Finance Ministers. A period of retrogression set in. The decline of British investment in Canada reduced imports and, in turn, customs receipts (the chief source of Dominion revenue), so that a series of federal deficits followed. The provinces had their own grave problems also, but in the main they were compelled to meet them by economy of administration or the exploitation of new sources of revenue, rather than through enlarged grants.

There were, in the period under review, two provincial conferences to seek larger subsidies, numerous petitions and memorials on the subject presented to Ottawa, and one historic threat of secession. However, aside from a number of minor adjustments and increases granted to individual provinces on various grounds, and a small upward revision of the debt-allowance basis in 1884, there was no significant development until the new economic era beginning in 1895 had created a situation which called for a major change.

Political factors also played a part in moulding federal resistance to appeals in the early years of this period. The government of Alexander Mackenzie (1873-78) was opposed to any "tinkering" with the subsidy provisions incorporated into the British North America Act, and not only was it impervious to the

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(13) See W. A. Mackintosh, *The Economic Background of Dominion-Provincial Relations*, Ch. 5.





frequent petitions from the provinces for new subsidies, but when the special ten-year grants given to New Brunswick and Nova Scotia expired in 1877, no plea of "fiscal need" or submission of other considerations availed to secure an extension of them. (14) In 1878, when the Mackenzie government retired, the annual subsidies to provinces had fallen to \$3,450,000 - a figure \$300,000 below the 1873 level, (of which about half represented the termination of the special grants to New Brunswick and Nova Scotia and the remainder the effect of withdrawals from capital sums credited to debt allowance account).

Attempts, successful and otherwise, to secure the enlargement of provincial grants during 1873-1905 may now be reviewed by provinces in chronological order:

In 1876 Manitoba was given a modest increase (\$26,750 a year) in its annual subsidy, payable from July 1st, 1875, until the end of 1881, when the next decennial census would automatically increase its grants. This was the only concession made by the Alexander Mackenzie government in five years and to earn it Manitoba demonstrated its desire to co-operate by abolishing the Legislative Council and creating county municipalities. (14a) Even so, the revenues available to the Manitoba government were inadequate to finance the developmental programme then being launched, and a new series of appeals was made to Ottawa. Another small concession was made in 1879, when the temporary grant of 1876 was raised to \$42,400, the same time limit being imposed. Three years later, following further negotiations, and with the census figures of 1881 before them, the Dominion authorities increased the grant for

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(14) Maxwell, op. cit., p. 66.

(14a) Organized in 1883 but abolished again in 1886. See Alan C. Ewart, The Municipal History of Manitoba: in Wickett, Municipal Government, University of Toronto Studies, 1907, p. 137. Rural municipalities were organized in the latter year.



support of government and legislature from \$30,000 to \$50,000, based the population subsidy of 80¢ per head on 150,000 instead of 17,000 (the 1881 census showed 64,800 and gave a new grant of \$45,000 annually as "indemnity for want of public lands". The enlarged grants were given for 10 years only, i.e., until another decennial census should have been taken. They raised the total subsidy to about \$230,000, (as compared with a sum of \$67,000 at the creation of the Province 12 years before) and the authorities at Ottawa expected the settlement of 1882 would be adequate for a decade. But Manitoba was in a difficult transition stage from Indian territory into a full-fledged province, the Canadian Pacific Railway had arrived in 1883, new settlers were pouring in, there were roads, bridges, institutions of various kinds to provide. It was difficult in the pioneer stage to extract much in taxation or fees from the newcomers and Manitoba had no public domain on which to draw. In these circumstances further appeals were made to Ottawa, and in 1885 another substantial revision was enacted, giving Manitoba a grant in lieu of lands of \$100,000 a year (instead of \$45,000), increasing its debt allowance so as to raise the annual interest by \$148,000, repealing the earlier ten-year time limit, and providing for a quinquennial census thereafter, with statutory estimates at intervals of  $2\frac{1}{2}$  years between each census. As a result, Manitoba's subsidy was once more doubled, the Province receiving \$443,000 in the fiscal year 1885-86. Apart from its share in the general revision of debt allowances of 1884, a lump-sum payment of half a million dollars on account of Manitoba's public buildings in 1898, and the automatic increases in the per capita grant as the population rose, this completes the account of revisions in the Manitoba subsidy up to 1905, at which date the Province was drawing about \$650,000 a year from Ottawa.





As the net increase in Dominion subsidies to all provinces between 1873 and 1905 was only \$750,000, it will be seen that Manitoba (gaining \$580,000 in the same period) obtained the lion's share. The explanation may lie partly in political and personal factors, but a pertinent fact of another sort was the abrupt organization of a province out of fur-trading territory, under the forced draft of railway construction and heavy immigration, compelling the authorities to embark on extensive developmental works without the benefit of those sources of revenue (customs and the public domain) on which other political entities in Canada had relied in their pioneer days.

(Nearly all the remainder of the \$750,000 net increase between 1873 and 1905 is explained by the revision of debt allowances in 1884, of which an account is given below. Nova Scotia and New Brunswick, partly due to loss of their special ten-year grants in 1877, partly due to withdrawal of capital sums from their debt allowances, were receiving less in subsidy in 1904-5 than they were in 1874-5. Prince Edward Island was also drawing less, solely due to reduction of its debt allowance through withdrawals. British Columbia was drawing \$75,000 more, Ontario \$143,000 more and Quebec \$127,000 more.)

In 1877 the famous "Halifax Award" was made by a tribunal set up under the Washington Treaty (1873). Of the \$5.5 million paid over to Great Britain, \$1 million went to Newfoundland and the remainder to the Dominion government. The three Maritime Provinces and Quebec made claims to a share of the \$4.5 million, Prince Edward Island being especially tenacious about it, and although the Dominion has steadfastly refused to admit the liability, the claim was renewed in the brief



presented to the Royal Commission on Dominion-Provincial Relations on behalf of the Province of New Brunswick in May, 1938. (15)

In 1879 the government of Prince Edward Island, under Premier W.W.Sullivan, began a series of successful petitions for additional help. One of these demanded compensation for the failure of the federal government to maintain "continuous communication" as pledged in the Act of Union in 1873. Resolutions were passed by the Legislature at Charlottetown, lengthy communications were sent to Ottawa, the premier and one of his ministers carried the request eventually to Downing Street. For a long time Ottawa was obdurate, although Premier Sullivan succeeded in obtaining a lump sum payment of \$20,700 to indemnify the Province for maintenance of penitentiary inmates in the period from 1873 to 1878, and another \$76,000 as a repayment of sums spent by the Province on wharfs and piers in public harbours (a federal responsibility, according to the court in the case of *Holman v. Green*). These transfers, in 1882 and 1884 respectively, were succeeded by an additional annual grant of \$20,000 made in 1887. This was augmented in 1901 by a further \$30,000 a year, which was described as being in "full settlement" of all claims arising out of the alleged failure on the part of the Dominion to maintain continuous communication with the Island as promised at the time of Union.

British Columbia's first successful negotiation in the period under review came in 1880, when a lump sum of \$250,000 was granted toward the construction of the Esquimalt graving dock. The background of this period reveals on the one hand an optimistic ambitious province spending freely on

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(15) See Submission by The Government of the Province of New Brunswick to the Royal Commission on Dominion-Provincial Relations, April, 1938, pp.65-9.





frontier expansion, borrowing when it could not tax, finding administration and development costs unusually heavy because of topographical and geographical features, and on the other a Dominion government encountering serious difficulties in its attempt to live up to the letter of its agreement (in Clause 11 of the Act of Union) to begin the construction of the Canadian Pacific Railway within two years and to finish it within ten. Lengthy negotiations between the two parties terminated for the time in the settlement of 1884. The Province therein agreed to waive all claims it might have by reason of the non-fulfilment of the railway clause, and to deed over to the Dominion  $3\frac{1}{2}$  million acres of land in the Peace River Belt (to compensate for inadequacies and alienations in the belt of land - 20 miles on each side of the interoceanic railway line - conveyed to the Dominion in 1871). In return the Province was to receive a grant of \$750,000 for the construction of a railroad between Nanaimo and Esquimalt, and the Dominion took over from the Province the responsibility for completing and operating the Esquimalt dock. In 1901 the Province launched a new series of claims based on the alleged disproportionate contribution of its residents toward Dominion customs revenues and on its geographic and topographic disabilities, but this campaign did not bear fruit until just after the close of the period under review.

Meantime, Nova Scotia had begun in 1878 to advance a group of varied claims for further help. The lack of municipal organizations in Nova Scotia supported by local direct taxation had laid a peculiarly heavy burden on the provincial government in its efforts to provide its citizens with adequate roads, ferries and bridges, and railway extension was also absorbing a large part of provincial income. Within the Province an economic transition, especially in shipping, was in progress and the aversion of the electorate to direct taxation restricted the efforts of provincial treasurers to uncover new sources of revenue.



The upshot was an appeal to Ottawa for help, and when this failed, a separatist movement grew up. The Fielding government, committed to secession by the election of 1886, nevertheless participated in the Provincial Conference of 1887 and the agitation for secession gradually subsided. It was not until 1901 that Nova Scotia obtained any supplementary revenue from Ottawa, and then it took the form of a lump sum award of \$662,000 to refund to the Province money it had paid to private contractors to build the Eastern Extension Railway.

Two more items complete the recital of individual increases. In 1884 Quebec was credited with \$2.4 million as a federal subsidy on the cost of the railway between Quebec City and Ottawa, which had been built by the Province, and which, it was contended, was as much entitled to form the basis of a government subsidy as the portions of the Canadian Pacific Railway (and the Canada Central) built between Pembroke and the Pacific.

In 1884, New Brunswick was paid \$150,000 as a refund of expenditure it had made on the Eastern Extension Railway. Eighteen years later it successfully presented the claim that this \$150,000 had been owing since 1869, and that the Province should have received interest on the sum in 1884. By 1902 there was, of course, a considerable sum of interest due in turn on the interest unpaid in 1884. The claim was submitted to arbitrators, and a total of \$275,600 was awarded, being arrears of interest on the original \$150,000 and interest on the interest.

Fiscal embarrassment in Quebec, which had indirectly brought about the first debt allowance revision in 1873, similarly led to the second revision of 1884. In both cases all provinces benefited. In 1873, the Dominion absorbed





\$10.5 million "excess debt" (over the allowance of 1867) which had been conjointly owed by Ontario and Quebec, the other provinces being credited proportionately. In the early eighties Quebec was faced with rapidly mounting debt charges (16) largely due to railway subsidies) and other expenditures, and no prospect of enhancing its revenues materially. The sale of the Quebec and Ottawa railway (incidentally at only 3/5 of its cost) relieved the province of part of its burden but expenditures were still rising and retrenchment or higher taxes were looming. There were political reasons why Quebec's appeal to Ottawa for help should be answered, and the device which was adopted enabled the Dominion government at the same time to supplement its grants to other provinces, several of which had been seeking additional aid.

Quebec's contention was that the adjustment of debt allowances in 1873 should have been retroactive, that the sums it had paid to the federal treasury between 1867 and 1873, as interest on its excess debt, should have been returned at that time, with interest on the interest so paid. What the Dominion government had thought it was giving as a concession in 1873, to avoid an embarrassing political controversy, was treated as the partial rectification of an error. Now Quebec wanted the error to be completely rectified. Whatever the merits of this argument it was accepted by the Dominion government in 1884. The revision of that year provided that the interest which had been charged Ontario and Quebec in 1867-73, together with interest at 5% on each instalment of interest from the time it fell due until July 1st, 1884, was to be treated as a capital sum, and credited to the provincial accounts. The capital sum was \$5.4 million and was to be divided in the proportion 52.8%

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(16) See Stewart Bates, Financial History of Canadian Governments. Section on Quebec.



for Ontario and 47.2% for Quebec (the division of the MacPherson-Gray Board of 1870). At 5% this addition to the capital sum gave Ontario a further annual grant of \$142,000 a year, and Quebec \$127,000.

It was necessary to augment the debt allowances of the other provinces in an equitable fashion and some rather complicated arithmetic was required.

For Nova Scotia and New Brunswick, it was necessary to calculate the annual sums they would have received as interest between 1867 and 1873 had the upward revision of 1873 been made retroactive, and add to that interest on each instalment of interest from the time it became due until July 1st, 1884. For Nova Scotia the result was \$793,000 and for New Brunswick \$605,000. As with Quebec and Ontario these were treated as capital sums and had the effect of increasing their annual subsidies by about \$40,000 and \$30,000 annually.

The other three provinces were given increases that would bear the same proportion to the increases of the four original provinces, as their population bore to the combined population of the four original provinces. <sup>(16a)</sup> Thus Ontario, Quebec, New Brunswick and Nova Scotia, with a combined population of 4,048,000 had received \$6.8 million or about \$1.70 per capita. On that basis Prince Edward Island would receive \$183,000 (\$9,150 per annum), Manitoba \$111,000 (\$5,550 per annum) and British Columbia \$83,000 (\$4,150 per annum). The revision of 1884, to sum up, increased the debt allowances held at credit at Ottawa by \$7.2 million and the annual subsidy by \$360,000.

Quebec continued to take the lead in demanding more adequate financial relations between the Dominion and the provinces. In 1887, Hon. Honoré Mercier, newly elected Premier of Quebec, called a conference of all the provincial leaders at Quebec to discuss provincial autonomy and federal

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(16a) As ascertained in the Census of 1881.





subsidies, the invitation being accepted by four other premiers and rejected by two. Sir John A. Macdonald declined to attend. Though there was no immediate outcome in the form of increased subsidies, the conference of 1887 and a similar one called by Premier Parent of Quebec in 1902 had an important bearing on the conference and subsidy revision of 1906, and for that reason will be considered in detail in the next section.

"The Great Depression" which began in 1873 was prolonged through the late seventies and the eighties, bearing heavily on pioneer capital-importing countries such as Canada, but about 1895 there came a turn in the tide and the beginning of an era of great expansion for the Dominion. Renewed immigration, on a vaster scale than before, renewed imports of capital, the settlement of the prairies, the growth of mining in Ontario and British Columbia, the beginnings of the pulp and paper industry, the general rise in prices, rapidly altered the complexion alike of Dominion finances and provincial responsibilities, and incidentally paved the way for the next major change in financial transfers.

The rapid settlement of the west after 1896 soon emphasized the demand in the North West Territories for provincial status, and in 1905 the provinces of Alberta and Saskatchewan were created. They had acquired much larger populations than Manitoba or British Columbia at the time of their accession, and were launched with much more substantial subsidies. The latter were as follows:

Grant for Government	\$	50,000
Population subsidy at 80¢		200,000
Interest on debt allowance		405,375
Subsidy in lieu of land		375,000
Building allowance (5 years only)		<u>93,750</u>
		\$1,124,125



Two items call for an explanation. It will be seen that each province was treated (in regard to debt allowance and 80¢ subsidy) as though it had a population of 250,000. This was approximately correct for Saskatchewan (where the 1906 census showed 257,763) but moderately excessive for Alberta (1906 census 185,195). The sum granted in lieu of land was of necessity an arbitrary figure, but an attempt was made in the resolution presented to the House of Commons to place it on a mathematical basis by estimating the arable land in each province and setting a nominal value per acre on it, and then applying a rising scale of interest to this capital sum, as the population of the provinces grew. The calculation was attacked by Hon. Clifford Sifton and the basis of it was deleted from the Act of Union, leaving the subsidies in lieu of lands as arbitrary figures rising with population. As in Manitoba, two sections of land in each township were set aside for "school lands" and receipts from their disposal were invested in a trust fund for the provinces, the net proceeds (after deduction of administrative costs) to go to the provincial government concerned.





Chapter 3. The General Subsidy Revision of 1907.

If the story of Dominion-Provincial financial relations from 1873 to the end of the century smacks of a constant wrangle between mendicant provinces and a stingy federal government, each haggling at times over a few thousand dollars in grants, the explanation is partly (perhaps largely) to be found in the economic and financial conditions of the period, which were difficult for both of them. Between 1873 and 1895 Dominion revenues rose only from \$20 million to \$33 million, and an ambitious developmental programme had to be supported and even extended all the while. Export trade was stagnant, the national debt was rising (its weight ameliorated somewhat by falling interest rates), borrowing was deliberately restricted to keep credit sound and refunding costs low. Deficits were the rule and all proposals involving additional expenditure had to be scrutinized sharply. The provinces, with heavy debt charges and relatively inflexible revenue sources, were in an even more uncomfortable position. The Dominion situation began to improve shortly after 1895. The relatively large subsidies provided for Alberta and Saskatchewan (compared with the sums other provinces had received at accession) and the revision of 1907 suggests that the Dominion government was not unwilling to increase its disbursements to the provinces once its own income had begun  
(16b)  
substantially to exceed its outgo.

The provincial conferences of 1887 and 1902 were, in fact, political expressions of fiscal need on the part of certain provinces. The former, called by Mercier, and warmly supported by Fielding, then riding the crest of a "secession" wave in Nova Scotia, proceeded to pass resolutions calling for substantially increased grants. One of them urged that the arbitrary sums granted in support of governments and Legislatures

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(16b) This condition did not occur until 1903 - see Stewart Bates, Financial History of Canadian Governments, Section on Dominion Government, sub-section 2.



(ranging from \$30,000 to \$80,000), should be enlarged and made responsive to population increases, beginning at \$100,000 (where the population was less than 150,000 persons) and rising by stages with the population to \$240,000 (where the population exceeded 1.5 million). Another resolution urged that the annual grant of 80¢ per head should increase with the population of each province, as ascertained from time to time by the decennial census, until such population exceeded 2.5 million; on the excess population the rate to be 60¢ per capita.

There were both political and financial reasons why these requests were not granted then. Sir John A. Macdonald treated the conference as an affront to the Dominion government and as inadequately representative of the provinces. Besides, there was no surplus to distribute. The Dominion budget had reported heavy deficits on ordinary account in 1885 and 1886 and a policy of limiting borrowing from the London market had been inaugurated in 1887 to keep Canada's credit sweet, and her interest rates low.

The provincial conference of 1902, called by Premier Parent of Quebec, was able to reiterate the demands of 1887 with greater force. The financial situation meanwhile had changed. Dominion revenues between 1887 and 1902 had risen by \$22 million a year, whereas the subsidies to the provinces had risen less than \$250,000 in the same period. The contrast between enhanced Dominion revenues and steeply rising provincial responsibilities, unrelieved by increased subsidies, was one which the delegates were inclined to emphasize. The resolutions of 1887, reconfirmed in 1902, were carried back to the provincial legislatures and ratified. The premier of British Columbia, who because of the recent date of the provincial election could not be present at the 1902 Conference, wrote Premier Parent that he concurred with the proposals for increased





subsidies, but that he would like to call attention to the peculiar handicaps of British Columbia, which merited a special grant above and beyond what was given the others. The conference of 1902, like its predecessor, failed to obtain immediate tangible results.

However, as its revenues rose, indirectly enlarged by the development policies of provinces and municipalities, which increased imports and therefore customs receipts, the Dominion showed greater willingness to listen to the requests of the provinces for enlarged subsidies. Inquiries were made in the House of Commons, and Sir Wilfrid Laurier, then Prime Minister, replied that discussions with the provinces over increased grants would be held soon, though he was not prepared to say when. A similar statement was made when the acts creating the new provinces of Alberta and Saskatchewan were under debate in the House of Commons (1905). The Dominion government still failed to take the initiative, however, and in October, 1905, the provinces despatched a joint request to Ottawa for a conference to discuss enlarged subsidies. Eleven months later, (September, 1906), Sir Wilfrid Laurier invited all the provinces to come to Ottawa for that purpose.

The Provincial Conference of 1906 revived and endorsed the two subsidy recommendations of 1902, which in turn repeated the original proposals of 1887, and this time the Dominion government accepted them and promised to petition the Imperial Parliament for the necessary amendment to the British North America Act. British Columbia's delegate, Premier Richard McBride, asked for the appointment of a royal commission to investigate the peculiar needs of his province arising out of its terrain, its scattered population, its isolation, and other adverse factors. Sir Wilfrid Laurier wanted an agreement at once, if possible, and was clearly afraid that if one sectional claim was formally examined, there would be further demands of the sort. As an



alternative, he invited the conference to recommend what sum should be paid to British Columbia as a supplementary grant to the increases already agreed upon. The Conference thereupon endorsed an additional \$100,000 annually to that province, for ten years. This was rejected by Premier McBride as inadequate, and after fruitless negotiations with Ottawa, he carried his protest to Downing Street, but the British government declined (16c) to intervene, and the necessary amendment to the British North America Act was passed and became law on July 1st, 1907.

The effect of the revision, which comprised:

(a) substantial increases in the grants in support of government and legislature, (b) the removal of population limits on the allowance of 80¢ per head (except that the excess above 2,500,000 was to be at 60¢ per head) and (c) the special grant of \$100,000 annually for British Columbia (for a ten year period), can best be seen by comparing the actual subsidies paid to all provinces in 1906-7 with those in 1907-8:

	<u>1906-7</u>	<u>1907-8</u>	<u>% increase</u>
	\$000	\$000	
Ontario	1,339	2,129	59
Quebec	1,087	1,687	55
Nova Scotia	433	610	41
New Brunswick	491	621	26
Manitoba	621	751	21
British Columbia	307	522	70
Prince Edward Island	212	282	33
Saskatchewan	1,130	1,218	8
Alberta	<u>1,124</u>	<u>1,212</u>	<u>8</u>
Total	\$6,745	\$9,033	34

(Source: Federal Subsidies and Grants to Provinces of Canada, 1937, p. 16.)

The revision was of greatest assistance to Ontario and Quebec, and next in order to British Columbia and Nova Scotia, these four provinces obtaining 3/4 of the net increase of \$2,288,000. (In subsequent years the revision naturally proved

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(16c) Except that the House of Lords transferred a "final and unalterable" clause from the body of the bill to the schedule.





to be of greatest value to those provinces with rapidly expanding populations, i.e., Quebec, the Prairie Provinces, British Columbia and Ontario. The per capita annual subsidy to Quebec is now \$900,000 a year higher than it was in 1907-8, to Ontario \$800,000 higher, to Saskatchewan \$540,000 higher, to Alberta \$420,000 higher, and to British Columbia \$415,000 higher, whereas the per capita subsidy has only risen \$60,000 in the case of New Brunswick, and \$43,000 in Nova Scotia, while Prince Edward Island gets the same per capita grant as in 1907.)

There has been no general revision of the statutory subsidy system since 1907. The statutory subsidies of 1938-39 (to distinguish them from interim, special, conditional and unemployment grants) amount <sup>(16d)</sup> to \$13,735,000, a sum greater by \$4.7 million than those of 1907-08. But \$3,550,000 of this increase is due solely to the automatic increases provided by the revision of 1907. In other words, the statutory subsidies of 1938-39 are essentially unchanged (in terms of dollars) from those of 1907-08, allowing for increases due to population.

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(16d) 1938-39.



Chapter 4. Experiments with the Conditional Grant, 1912-28.

The next convenient period in which to examine the growth of the subsidy system is the 20 years following the revision of 1907, during which the most significant development was a series of experiments with the conditional grant.

There was little change in statutory subsidies in the two decades. They rose from \$9,035,000 (1907-08) to \$12,520,000 (1926-27), the increase of \$3,485,000 being due to four factors: (a) the rise in population, reflected in the automatic increases adopted in 1907, which accounted for nearly \$2.5 million of the increase; (b) an adjustment made for Manitoba in 1912, accounting for another \$512,000 a year; (c) increases due to rising population raising the subsidies in lieu of land, for Alberta and Saskatchewan (as provided in the Acts of 1905), by \$375,000, and (d) an additional special grant of \$100,000 a year made to Prince Edward Island in 1912.

The schedules of 1907 were to be "final and unalterable", (though in debate Sir Wilfrid Laurier admitted the futility of such a clause), but the new scale was hardly in effect before Manitoba had developed another claim, based on the financial arrangements given to Alberta and Saskatchewan in 1905, several features of which were held to discriminate against Manitoba. The boundaries of Saskatchewan and Alberta had been extended to the 60th parallel of latitude, and their areas made three times that of Manitoba. Their subsidies "in lieu of land" had been set at \$375,000. (with provision for increases as population rose) whereas Manitoba was getting only \$100,000 a year in land grant. Their debt allowances had been set at \$8,107,500. whereas Manitoba's was only \$4,055,000. Manitoba asked the Dominion government to place her on an equality with the other Prairie Provinces in all three respects. Sir Wilfrid Laurier was prepared to discuss a larger subsidy in lieu of land, but would not admit that the terms granted Alberta





and Saskatchewan entitled Manitoba, any more than any other province, to a revision of other grants.

The years 1907-1911 constituted a buoyant period for provincial revenues generally, and the Laurier government did not find it expedient to supplement its revisions of 1907. British Columbia, dissatisfied with the treatment accorded its plea for special terms in 1907, was biding its time for a further protest. Until 1911, however, enjoying as it was a series of substantial surpluses on ordinary account, British Columbia would have found it difficult to make out a convincing case at Ottawa. Meantime the province was engaged in an ambitious developmental programme, investing heavily in public buildings, schools, highways, institutions, bridges and railroads. A considerable portion of the money was coming from current account, but the funded debt was rising also. Surpluses on current account ended in 1912, and in 1913 the province reported an overall deficit of \$20 million.<sup>(17)</sup>

About the time these fiscal difficulties began to ripen in British Columbia, the political scene at Ottawa turned more favourable. Sir Richard McBride had whole-heartedly supported the federal Conservative campaign in 1908 and again in 1911, and when Sir Robert Borden came into power in the latter year, McBride made a pilgrimage to Ottawa to ask again for what he had been denied at the 1906 Conference, -- a royal commission to investigate claims of the province for special treatment because of exceptional physical features of the province, alleged disproportionate contributions to federal revenues, and other considerations. This time the request was granted, and the province immediately began the preparation of a case. Two of the three members of the commission had been appointed, when War broke out in 1914, and the inquiry was never held.

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(17) Bates, op. cit. Section on British Columbia.



The accession to office of the Borden government was also the signal for a renewal of Manitoba's claims. They were now urged with success, and in 1912 Manitoba was placed on the same basis as Saskatchewan and Alberta, with the following changes:

Increase in subsidy in lieu of land (formerly \$100,000)	\$309,000
Increase in annual interest on enhanced debt allowance	<u>203,000</u>
Total increase	\$512,000

The arrangement was made retroactive to 1908, and arrearages  
(18)  
of \$2.2 million were paid over to the province in a lump  
sum.

Prince Edward Island was the third province to approach Ottawa in the early months of the Borden regime. Manitoba (like British Columbia) had been able to plead the heavy burden of providing services for a rapidly expanding population, -- the acquisition of a telephone system and a chain of grain elevators, and the erection of public buildings having been largely responsible for Manitoba's financial embarrassment in 1912. The problem in Prince Edward Island was of a different nature. Lack of public domain and a declining population, the absence of new mining or manufacturing ventures, gave it a narrow and inflexible revenue base. Overhead costs of government were relatively high, new services were being demanded, the purchasing power of the dollar had been declining since 1907 (the date of the last subsidy revision). Despite frugality, the Island government reported small deficits in 1910, 1911 and 1912. In its approach to Ottawa it was able to revive the historic complaints about inadequate communication, neglect in regard to public works, etc. and these served to support an additional grant of \$100,000 a year, which was equivalent to

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(18) Federal Subsidies and Grants to Provinces of Canada  
p.14. footnote to Schedule 3.





an increase of 27% of ordinary revenues, and which raised subsidies to 70% of total government receipts. (19)

By 1913 the period of large provincial surpluses -- which began in 1904 -- had come to an end. Provincial revenues had risen sensationally from the beginning of the century (\$13 million to \$52 million in 1913) but expenditures were climbing even faster. It was in this setting, with the substantial increases in grants recently awarded to Manitoba and Prince Edward Island fresh in mind, and the Province of British Columbia working on its case for increased subsidies, to present to the royal commission, that the provincial conference of 1913 was held. It had not been called for the express purpose of renewing subsidy requests, but the matter came up immediately, and a resolution was subsequently endorsed asking the Dominion government to give the provinces an extra grant "equal to 10% of the Customs and Excise Duties collected...from year to year". This was roughly equivalent to a request to double the existing subsidies, as the \$13.2 million distributed in statutory subsidies in 1913 would have been supplemented by \$13.3 million, representing 10% of the collections of customs and excise in the same year. The conference proposed that this additional sum be distributed first, by increasing the scale of grants in support of government and legislature by 50%, and dividing the remainder according to population. (Had this proposal been adopted, the provinces would thereafter have enjoyed a substantial, but highly fluctuating, addition to their revenues. Thus in 1914 they would have received an addition of \$12.6 million and in 1915 only \$9.7 million. They would have been dependent upon the uncertainties of external trade and the fashions in fiscal policies. The depression beginning in 1929 would have severely cut their revenues at the very time when other sources were drying up and heavy new expenditures were being incurred. In 1929-30 their "customs"

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(19) Stewart Bates, op. cit. Section on P.E.I.



grant would have equalled \$25 million, but by 1933-34 it would have dropped to \$10 million. Chart III shows what would have been the course of subsidy payments if this procedure had been adopted, as compared with the actual history.

There was general expectation that the Borden government would act on the suggestion, but less than nine months later the world was plunged into war, and the Dominion's revenue sources were soon strained to breaking point to care for its own responsibilities.

Meantime, in 1912-13, the Dominion government had embarked on the first of a series of experiments with the conditional grant, a scheme of assistance to the provinces in agricultural education.

It would be possible to treat the Agricultural Instruction Act as merely the fulfilment of an election promise, without historic significance, but the gradual extension of the device to other fields, and the permanent adoption of it (if one so classify grants for old age pensions and grants-in-aid for unemployment relief) in the federal subsidy system, indicate that the phenomenon is rather to be explained as an attempt to meet a new problem in federal-provincial relations.

What was the new problem in 1912 and subsequent years?

The nature of it can, perhaps, best be seen by contrasting the financial relationship as envisaged by the Fathers of Confederation in 1864 with the actual situation that developed in the early years of the present century.

(20)

The Dominion was (in 1864) to be the taxing power; the provinces were to be "of a completely subordinate and municipal character for the administration of purely local affairs".

(21)

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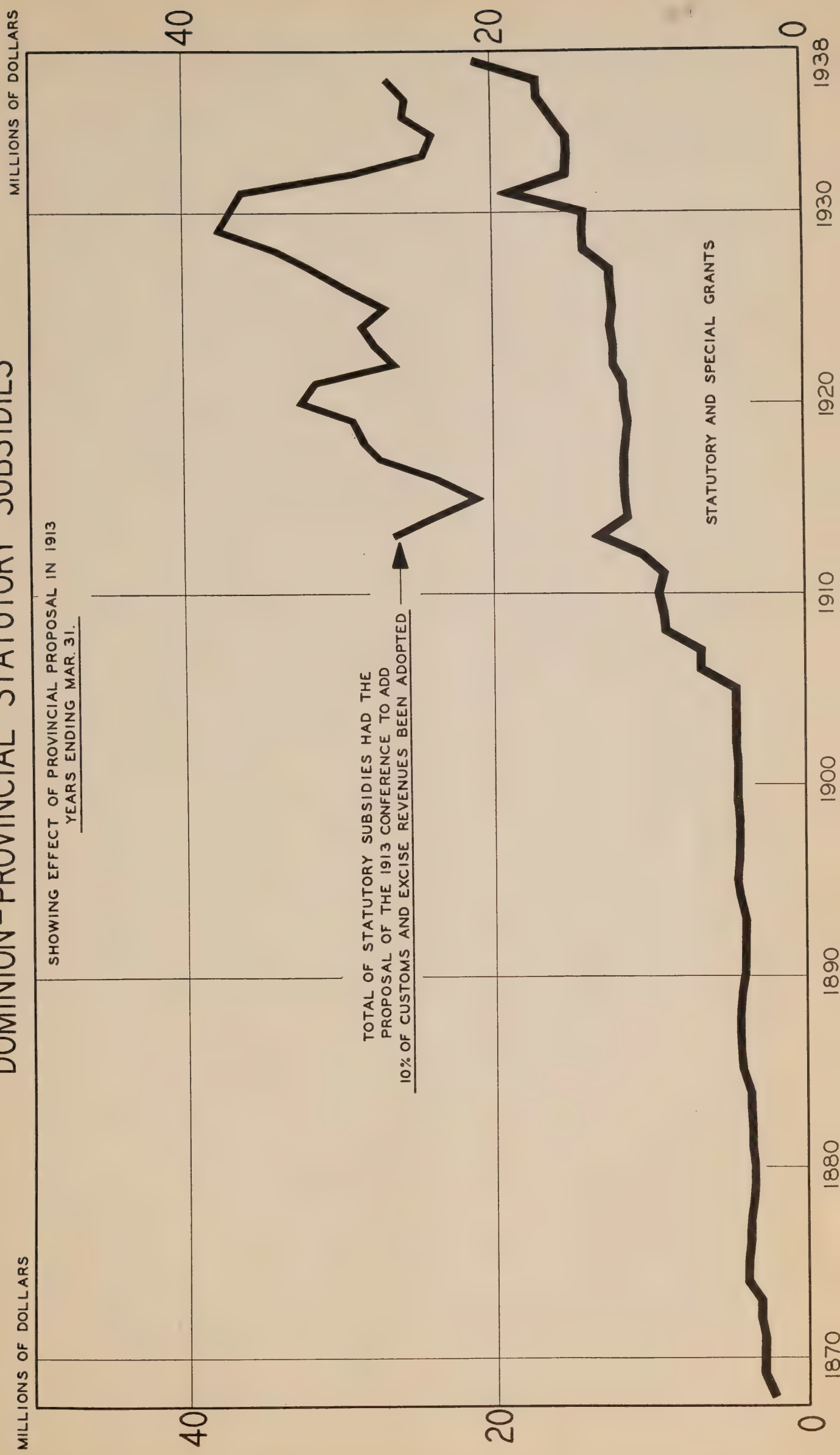
(20) Confederation Debates, p.67: Sir A.T.Galt; "Having the power of taxation in their own hands, it will be the fault of the General Legislature if any embarrassment is felt in meeting the expenditure of the General Government."

(21) W.M.Whitelaw, Reconstructing the Quebec Conference (Canadian Historical Review, vol.19, June, 1938, p.136). There were, of course, concessions and modifications of these intentions in the final terms of Confederation.





CHART III  
DOMINION - PROVINCIAL STATUTORY SUBSIDIES





The Dominion was to carry the heavy load and consequently was entrusted with the predominating fiscal power. Small subsidies were provided to tide the provinces over until such time as they developed local revenues.

Things did not turn out exactly as the Fathers had anticipated. The transformation of a relatively simple economy, based on the farm, the forest and the sea, into a complex, integrated, highly urbanized society, had consequences which could not then be foreseen. Government intervention, at first for development, later for regulation and the provision of various services, grew prodigiously. <sup>(22)</sup> In this process the growth of towns and cities was no small factor, since collective (i.e. state) activity is much more feasible and in general more advantageous for persons living in a closely-knit community than for isolated trappers, hunters, farmers and fishermen. This expansion of communal activity made even greater demands on municipal and provincial governments than it did on the Dominion, and in the early years of the present century provincial expenditures <sup>(22a)</sup> were growing at a much greater rate than federal ones (provincial increase, 1900-1914, 326%, Dominion increase, same years, 200%). The War distorted the comparison for a time, but it may be added that by 1930 the provinces were spending nearly 14 times as much as at the beginning of the century, while the Dominion (with war legacies representing at least 1/3 of its ordinary expenditure) was spending about 8 times. ,

The financial provisions for the provinces at Confederation were naturally inadequate to meet the strain imposed by the undertaking of these extensive new services. Many of them seemed to call naturally and logically for provincial and municipal assumption, and, in the main, Privy Council interpretations of the British North America Act confirmed the

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(22) See Corry, J. A. Growth of Government Activities since Confederation, passim.

(22a) The comparison is between ordinary expenditures of Dominion and provincial governments.





authority of the provinces in controversial fields.

Thus by 1912 provinces were finding themselves expected by the public to provide vast new services, but puzzled how to obtain the necessary revenue. The Dominion government was also being pressed to provide some of the same services, and while it undoubtedly possessed fiscal reserves and could have financed additional undertakings, it found itself without the constitutional authority to undertake them directly. It was out of this situation that the conditional grant appears to have arisen.

The enactment of the Agricultural Instruction Act in 1913 (which repealed the earlier experimental act of 1912, the Agricultural Aid Act) illustrates the foregoing statement. For some years a conviction had been growing that due attention was not being given to the training of young men and women for farm life. The potentialities of "scientific agriculture" were beginning to be realized, but they had not yet found expression in school curricula. The "drift to the city" was believed to be largely due to the failure to make agriculture an interesting career. Young men and women planning to enter professions were getting far more academic and cultural attention than those who preferred to stay on the land.

These impressions began to be voiced by parliamentary representatives, and when they became sufficiently vocal and influential they were incorporated into a political platform. Sir Robert Borden promised in 1911 that if elected he would do something about it. There were, of course, constitutional obstacles. While agriculture was a federal field of activity (concurrent with the provinces) agricultural education was (it would appear from judicial rulings) likely to be treated as education, and therefore as a provincial field. The Dominion was thus barred from direct action but it could offer financial aid and provide leadership.



The War intervened before the device had been extended to other fields, but the immediate post-war years saw four similar efforts by the Dominion to initiate and encourage activities which it could not directly undertake. By 1929 three schemes had expired and another was expiring but meantime new activities were requiring similar aid.

Federal experience with these early conditional grants will now be briefly reviewed: (23)

(a) Agricultural Instruction.

The Agricultural Aid Act was passed in April, 1912, and \$500,000 voted for one year as a trial grant, to be divided among the provinces in proportion to population. This act was succeeded in June, 1913, by the Agricultural Instruction Act. The latter provided for the distribution of \$10 million over a period of ten years, in the following manner: \$20,000 annually to each province; \$20,000 annually to recognized veterinary colleges; the remainder to be divided among the provinces according to population. In order to launch the new policy gradually, \$700,000 was to be distributed the first year, rising annually by \$100,000 a year to \$1.1 million, at which figure it was to remain during the life of the Act. When the ten years were over, a further \$900,000 was voted in the following year. Thus in all a sum of \$11 million was paid over to the provinces between 1912 and 1924 for agricultural education and promotion.

Annual agreements were entered into with the provinces, which were required to submit a schedule indicating what expenditures they proposed to make in the coming year. The agreements contained regulations governing the expenditure of the sums, and the Dominion carried on a certain amount of inspection of the provincial projects. Expenditures were

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(23) See Gettys, op cit.; Grauer, A.E., Public Health; Grauer, A.E. Public Assistance and Social Insurance; Corry, J.A., Difficulties of Divided Jurisdiction.





audited by Dominion officials and the federal government had the authority to withhold payments if not satisfied with the way in which expenditures had been made. The provinces were given considerable latitude in planning projects, the chief stipulations being that they must conform to the aim of the Act, and that the grants were not to be used merely to replace the customary expenditure of the province in this field.

Conflicting appraisals of the accomplishments of this Act have been expressed. It is of interest, in view of adverse judgments, that a resolution accepted by the Dominion-Provincial Conference of December, 1935, declared that "the most effective assistance which the Dominion Department of Agriculture can render to agricultural education would be by restoring the former grant-in-aid of agriculture of \$1 million a year for a period of ten years..."

(b) Employment Service

The Public Employment Offices Co-ordination Act, which received royal assent in May, 1918, was intended to encourage provincial (public) employment offices, co-ordinate their activities by providing a federal clearing-house of information as to labour supply and demand, and aid in the demobilization and re-employment of returned soldiers. Since 1921 the annual appropriation for this Act has been \$150,000, which is divided among the provinces in the proportion that the expenditure of each province bears toward the total expenditures of all provinces. Each year a new agreement is signed with the participating province (all provinces but Prince Edward Island have signed agreements since 1924) in which the province agrees; (a) to submit statements of expenditure; (b) to maintain a provincial clearance system; (c) to refrain from issuing licences to commercial employment agencies; (d) to give free service to employers and employees; (e) to provide certain facilities to



aid in placing in employment handicapped ex-service men;  
(f) to supply the Department of Labour at Ottawa with standard statistics; (g) to meet certain other requirements. The Dominion has the right to inspect, and to withhold payment of the grant. The Act provides that a province may not receive a grant in excess of 50 per cent of the total provincial expenditure, in each province, for employment service.

This is the only conditional grant inaugurated in the years under review which is still being paid. This does not necessarily mean that it has been the most satisfactory. The existing employment service was criticized severely in the interim report of the National Employment Commission. (24) Steps were taken to abolish the existing system of federal-aided provincial offices and set up a national system in 1935 (as part of the scheme for employment insurance), but the statute was ruled invalid by the courts and pending further efforts to set up an insurance scheme the old arrangement regarding employment offices is being maintained.

#### (c) Highway Construction

The growth of urban centres in Canada and the increasing interdependence of the economy gradually drew attention to the importance of a good highway system. Roads ceased to be purely of local or municipal concern. Good Roads Associations had begun in the nineties. The advent of the automobile heralded the day when roads would become of national concern. (25) As early as 1911 the Conservative Party promised federal aid for highway improvement, and kept its pledge by introducing a bill in the session of 1911-12. The measure was twice defeated in the Senate, and then the War intervened, but the proposal was revived in 1919 and an act passed under which the sum of

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(24) Interim Report, National Employment Commission, p.17.

(25) Corry, J.A. Growth of Government Activities Since Confederation. Section IX.





\$20 million was to be distributed over a period of five years, beginning in the fiscal year 1919-20.

The purpose of the Act was to encourage the construction of a connected system of highways across Canada. To earn the grant, the provinces had to provide at least 60% of the cost of a highway, the Dominion contributing the remainder. They were invited to submit five-year programme of construction, federal aid being limited to main highways. The Dominion government set up a new branch of the Department of Railways and Canals to supervise and inspect the work, and a careful audit was made of expenditures. A flat sum of \$80,000 was allotted to each province, the remainder of the \$20 million being divided according to population. Some provinces were more prompt than others in undertaking construction that would earn them their share of the grant. By 1924 less than \$14 million had been earned, and the Act was extended twice. The total sum had been distributed by March 31, 1928, the allocation being as follows:

	\$000
Prince Edward Island	603
Nova Scotia	1,469
New Brunswick	1,164
Quebec	4,748
Ontario	5,877
Manitoba	1,602
Saskatchewan	1,806
Alberta	1,478
British Columbia	1,252

About 8,700 miles of highway was built under the scheme.

Students of conditional grants appear to agree that the highway grant was one of the more successful experiments of this period. The nature of the project simplified federal inspection.

Dominion engineers were able to lay down specifications which must be met to qualify for the grant. The criteria employed were objective, the accomplishments tangible. Inspection could be effective and audits were simple. (26)

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(26) See Corry, J.A., Difficulties of Divided Jurisdiction, Chapter VI.



(d) Technical Education

Like the grant for highways, the grant for technical education had its roots in the pre-war period, a royal commission having been appointed in 1910 to inquire into "the needs and present equipment of the Dominion as respects industrial training and technical education". The commission, having studied vocational education in several other countries as well as Canada, brought in a report in 1913 recommending, among other things, a federal grant of \$3 million annually for ten years for the promotion of industrial and technical training. War intervened, and it was not until July, 1919, that an act for the purpose (somewhat more modest than the commission's proposal) received royal assent.

The measure resembled in some respects the act on agricultural administration. A sum of \$700,000 was voted for the first year, rising by \$100,000 a year until a figure of \$1.1 million was reached, at which it was to remain until ten years had expired. Ten thousand dollars was allotted to each province, and the remainder of the annual grant divided according to population. The provinces were required to match the federal contribution in order to qualify. As a portion of the grant was still unearned at the expiration of ten years, the Act was twice extended for five year periods. The annual federal disbursements under the act have been as follows:





Fiscal Year	Federal disbursement \$000
1920	187
1921	581
1922	720
1923	648
1924	880
1925	830
1926	944
1927	1,048
1928	966
1929	1,152
1930	413
1931	391
1932	283
1933	202
1934	129
1935	91
1936	99
1937	76
Total, to Mar. 31, 1937	\$9,949

A Technical Education Branch was established in the federal Department of Labour to supervise provincial activities under the Act. Expenditures were audited by the Dominion government. Agreements were entered into with the provinces year by year, setting forth the type of activity for which the grant could be expended. Considerable latitude was given provincial officials because of the great variation in industrial conditions in the several provinces, and in 1935-36 certain expenditures on agricultural instruction were accepted as legitimate.

(In May, 1931, a bill was introduced in Parliament providing for an annual grant of \$750,000 a year for 15 years to aid the provinces in vocational education including agricultural education. The bill became law but because of the condition of the treasury at the time no appropriations were made under it. The Liberal party, then in opposition, opposed the legislation and since coming into power in 1935 has taken no steps to make the Act of 1931 operative. Considerable sums, however, have been voted for youth training in the present  
(26a)  
Parliament).



(e) Campaign Against Venereal Disease

In 1919 the Dominion government undertook to encourage a campaign against venereal disease by grants-in-aid to the provinces. A similar technique was employed to that of earlier conditional grants. In order to earn their share of the grant, provinces were required to sign an annual agreement, match the expenditure of the federal government, and meet the conditions and regulations laid down by the Dominion Department of Health. Sums varying from \$200,000 to \$100,000 were voted from year to year by Parliament. The grants were permitted to lapse in 1932. Meanwhile over \$1.7 million had been distributed to the provinces. As with other grants, the division was on the basis of population, but there was no flat sum given first to each province. The campaign resulted in provincial expenditure of about \$2,750,000 in addition to the Dominion grants. Students of conditional grants rank this as one of the more successful experiments with the device. While the precise results were not easy to evaluate, and the stimulus of federal aid may have been withdrawn too soon, there is general agreement that the Dominion government achieved the aims laid down in the initial plan, at reasonable cost.

In 1927 the Dominion government began making grants to the provinces for old age pensions. Distinguishing it from the five conditional grants just reviewed, this new venture obviously involved a permanent federal obligation, and its potential magnitude justifies separate consideration in the next section.

Meantime, before picking up the narrative thread of subsidy developments, the relative financial weight of the five experimental grants may be noticed. All five were in operation in the period 1921-24, and the peak of transfers was reached in the fiscal year 1922-23, when over \$8 million was paid to the provinces in connection with them. Statutory subsidies (non-





conditional) amounted to \$12.2 million in the same year, the grand total thus being over \$20.2 million (which was double the figure for 1911-12, and five times the 1900 total). As conditional grants expired, there was a subsequent decline in subsidies to 1926-27, when the total was a little over \$14 million. Thereafter, the special subsidies paid to the Maritimes (on recommendation of the Duncan Commission) and the rising cost of old age pensions offset declines in earlier conditional grants, and from 1929 on, aggregate transfers soared steadily and rapidly.



Chapter 5. A New Series of Special Grants, 1927-37

From 1912 to 1927 the pattern of unconditional subsidies was unmodified except by automatic increases due to gains in population, but meantime economic changes and political negotiations were under way which were to find financial expression in the following decade in a series of important additions to the subsidy system in the form of "annual grants", (being voted each session, and not made statutory). Six provinces are now receiving these special grants, and the total sum voted for them in the current year (1938-39) was \$5,475,000.

Also, in the decade following 1927, a lump sum settlement as compensation for alienation of natural resources was made with one province (Manitoba), and progress achieved toward a similar settlement in the case of three others, Saskatchewan, Alberta and British Columbia.

The retention by the Dominion government of the natural resources of the three Prairie Provinces provided a good talking point for elections for a number of years, but the issue could not be carried much further without embarrassment for the governments of the Prairie Provinces, since they were already receiving substantial annual grants "in lieu of lands", and the resources were costing the Dominion government more for administration than it was receiving as revenue. The loss of their grants in exchange for an unprofitable trusteeship would have been disastrous politically and fiscally, and so for many years there was an air of unreality about the provincial representations. The matter was relatively quiescent from 1905 to 1911, showed signs of life from 1911 to 1914, was dropped during the War, and revived again in 1920, when Rt. Hon. Arthur Meighen told the provinces plainly that a request for both the return of the resources and the continuation of the annual grants could not be considered.





Mr. Meighen was replaced as Prime Minister by Rt. Hon. Mackenzie King in December, 1921, and shortly after accession to power the latter suggested that the simplest solution would be for the provinces to take over their resources in return for a discontinuation of the grant. The federal government, he added, was not averse to an accounting of the Dominion trusteeship, provided the decision of a tribunal were to be binding on all parties. Negotiations were continued for several years without much progress, although in 1926 an agreement was concluded with Alberta, under which the resources were to be conveyed to the province and the land subsidy continued for three years only. However, another issue, that of educational rights for Catholic minorities in Alberta, was raised when the proposal was before the House of Commons and the two governments in some alarm let the agreement lapse.

Meantime the recommendations of the Duncan Commission in 1926 for new grants for the Maritime Provinces (outlined below) had stiffened the demands of the prairie premiers for a settlement of the resources issue. The prairie members of the Dominion Cabinet were at first opposed to concessions to the Maritimes, but at the Dominion-Provincial conference of 1927 there was "cordial reciprocation" <sup>(27)</sup> between the Prairies and the Maritimes, and "as a result the government (Dominion) felt that it was free to reopen negotiations with the western provinces on a basis more liberal than it had theretofore found possible to adopt". In the following summer Manitoba and the Dominion government came to an agreement on the method of settlement. A royal commission under the chair- <sup>(27a)</sup>manship of Mr. Justice W. F. A. Turgeon of the Saskatchewan Court of Appeal was appointed to report as to what financial readjustments were necessary to place Manitoba on an equality

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(27) Maxwell, op. cit., pp. 146-7.

(27a) Later Chief Justice of the province.



with the other provinces of Confederation "with respect to the administration and control of its natural resources as from its entrance into Confederation in 1870". This commission made its report in May, 1929, recommending that the sum of \$4,584,000 be paid to Manitoba as compensation, and the subsidy "in lieu of lands" be continued at the existing level.

A similar agreement was reached for the settlement of the natural resources question in Alberta and Saskatchewan (though the inquiry in these provinces was delayed pending judicial determination of the right of the Dominion to hold land in any other fashion than as "administrative trustee") and in 1935 the commissions recommended lump sum settlements of \$5 million to each province. (Mr. Justice Bigelow, one of the members of the Saskatchewan commission, in a dissenting report, recommended a payment of \$58 million for Saskatchewan.) The Dominion government was prepared to fulfil the recommendations of the commissions but the dissent of Mr. Justice Bigelow influenced Saskatchewan to reject the settlement, and under the circumstances Alberta decided to wait and see what terms were given to the neighbouring province. As a result, neither negotiation has yet been concluded.

British Columbia also had a natural resources question, arising out of the conveyance of the belt of land on each side of the Canadian Pacific Railway and the Peace River Block (the latter having been added to make up for deficiencies and alienations in the railway belt). In 1927, after considerable correspondence between Victoria and Ottawa during the post-war years, Mr. Justice W. M. Martin of the Saskatchewan Court of Appeal was appointed to examine British Columbia's contentions. His report recommended the return of this land, which was done in 1930, the land subsidy being continued as in the case of the Prairie Provinces. Subsequently (1934) the provincial government asked for an investigation to see whether any additional compensation was due the province for the lands alienated during federal jurisdiction.





The events which gave rise to the special annual grants to six provinces between 1927 and 1937 will now be related in sequence:

The Maritime Provinces were faced by difficult economic adjustments in the post-war years. The collapse from the war boom was severe, and recovery very slow. Markets for lumber, fish, agricultural products, coal and steel were highly competitive and prices unsatisfactory. Population in other parts of Canada was rising satisfactorily, but in Prince Edward Island and Nova Scotia it was declining and the gain in New Brunswick was small. The value of production in the Maritimes fell from 8.8% of the Dominion total in 1920 to 6.6% in 1926. (28)

These factors were reflected in public finance and the provincial budgets of Nova Scotia and New Brunswick reported deficits almost continuously through the early post-war years.

The spectacle of some provinces forging ahead while others languished gave rise to complaint that the Maritime Provinces were not getting their due share of the benefits of Confederation. Though fiscal need had clearly been at the root of most subsidy revisions since Confederation, the provincial leaders appeared to need some other basis on which to approach Ottawa, and a number of specific claims were advanced. For example, it was contended that discrimination had been shown against the Maritimes in the treatment of debt allowances for the Prairie Provinces - that whereas the Maritimes had turned over revenue-producing assets in exchange, (28a) the Prairie Provinces had possessed no assets to turn over. Attention was

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(28) Mackintosh, W. A., op. cit., Ch. 5.

(28a) The railways, however, comprising the major item in the assets turned over by Nova Scotia and New Brunswick in 1867 had reported average earnings of less than 1% of construction costs in the years 1860-67.



called to the vast areas added to the territory - and therefore to the potential wealth - of Ontario and Quebec, whereas the Maritimes were not in a geographic position to benefit from any revision of boundaries. Another argument cited the principle of compensation for Dominion impairment of provincial revenue (e.g. the grant of \$150,000 a year to New Brunswick for the loss of export duties on lumber) and asserted that the Maritimes were now entitled to claim compensation for such national policies as the tariff, which, they contended, had reduced the taxable capacity of their citizens.

"Maritime Rights" naturally became an issue in both provincial and federal policies. It was a factor in the provincial Conservative victory of 1925, and in October of the same year the federal Liberal party lost considerable ground in the Maritimes. Early in the following year, a royal commission under the chairmanship of Sir Andrew Rae Duncan was appointed to investigate Maritime problems.

The Duncan Commission, reporting September 23rd, 1926, made a number of recommendations for the improvement of the economic and financial position of the Maritime Provinces. It found that they had a "genuine claim to a readjustment of the financial arrangements between the Dominion and themselves, and that in any readjustment their territorial limitations entitle them to still further consideration".

Without attempting to assess precisely what the readjustment should be, the Duncan Commission recommended "immediate interim lump-sum increases" in annual subsidies as follows:

Nova Scotia	\$875,000
New Brunswick	600,000
Prince Edward Island	125,000

The Dominion government voted this sum (\$1.6 million) in the fiscal year 1927-28 and each year subsequently until the further revision of 1935.





The "readjustment" in the financial relations of the Maritimes with the Dominion was not undertaken until the fiscal problems arising out of the depression had become acute in the Maritimes as elsewhere. In the autumn of 1934 a commission of three under the chairmanship of Sir Thomas White was appointed for this purpose. It recommended that the interim subsidies of 1927 be replaced by the following annual grants:

Nova Scotia	\$1,300,000
New Brunswick	900,000
Prince Edward Island	<u>275,000</u>
	\$2,475,000

(Mr. Justice Mathieson of Prince Edward Island wrote a minority report rejecting the majority award as sufficient only for "partial and temporary relief".)

The enlarged special subsidies to the Maritimes were first paid in the fiscal year 1935-36 and have been voted by parliament annually since.

British Columbia continued to urge recognition of its special disabilities. It had been promised a royal commission in 1911, but the war had intervened, and post-war governments had taken no steps to redeem the promise. Repeated representations to Ottawa on this and other matters had produced no tangible result except the Martin Commission mentioned above. British Columbia, in 1935, was still receiving only \$875,000 a year in subsidies, whereas the White recommendations had brought even Prince Edward Island up to \$656,000, and Nova Scotia with a population only 70% that of British Columbia, was now receiving nearly \$2 million annually. Comparisons with other western provinces were also striking, the total annual grant for Saskatchewan being \$2,145,000, Alberta \$1,776,000 and Manitoba \$1,703,000.

Under these circumstances British Columbia, which was emerging from the depression saddled by a greatly enhanced



public debt, made another appeal to Ottawa. The result was an interim special grant of \$750,000, voted for the first time in the federal session 1935-36 to apply to the provincial fiscal year 1934-35, and continued since. That the relatively low subsidy then being received by British Columbia was a major factor in determining the increase is clear from the statement made in the House of Commons by Rt. Hon. R.B. Bennett. (29)

There remain, in this series, the special grants to Saskatchewan and Manitoba provided after an investigation of the financial position of the Prairie Provinces by the Bank of Canada, made early in 1937.

The world-wide economic depression beginning in 1929 had been sharply accentuated on the prairies by a long series of crop failures due to drought, grasshoppers and rust. The provincial governments, faced by declining revenues and rising expenditures were soon experiencing difficulty in meeting their obligations, and after 1930 had to be assisted by extensive loans from the federal treasury which, for the four western provinces, amounted to \$127 million on February 15, 1937. Matters reached a crisis in 1936-37. The statutory authority of the Dominion government to make further advances expired, and Alberta was unable to meet a maturity of \$3.2 million on April 1st, 1936. Saskatchewan and Manitoba staved off default but were getting more deeply involved every month. Saskatchewan again bore the brunt of a devastating drought in 1936, and Manitoba was still going behind at the rate of about \$3 million a year (30) in spite of drastic reduction of services and new taxation. A call went up for a "Duncan Commission" for the prairies. The federal government was not disposed to initiate any more regional surveys of that nature, but early in 1937, in

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(29) "Only last year ....we made a special grant to British Columbia, for one had only to compare the amount received by that province from the Dominion with the amounts payable to the other three western provinces to realize that even the \$750,000 paid did not put them on a basis of equality." House of Commons Debates 1936, p.2850.

(30) See Bank of Canada's Report on the Financial Position of Manitoba, pp. 22-3.





response to an invitation by the Premiers of Saskatchewan and Manitoba and the Department of Finance, the Bank of Canada undertook an examination of the financial position of those provinces.

The Bank's reports, made public on February 15th and March 15th, 1937, recommended a "comprehensive enquiry into the financial powers and responsibilities of all our governing bodies" and expressed the view that pending the report of such a commission the Dominion government would be justified in extending to Manitoba and Saskatchewan temporary financial aid.

This was done shortly afterwards by a special grant of \$1.5 million to Saskatchewan and \$750,000 to Manitoba, approved by Parliament in the 1937 session and again voted in 1938.

The summer of 1937 brought to southern Saskatchewan the most widespread and destructive drought of the entire cycle, and the federal government provided an "additional temporary grant" of \$2 million to that province to enable it "to continue essential services" pending improvement in crop conditions and pending the report of a royal commission on financial powers and responsibilities.

(The Bank of Canada also undertook, at the request of Premier William Aberhart, an investigation of the financial position of Alberta. It reported that Alberta was in a position to maintain its governmental services "on as favourable a basis as Manitoba or Saskatchewan without receipt of additional assistance" (30a) and accordingly found no basis for recommending the extension of temporary financial aid to that province.)

The special grants included in the estimates for the fiscal year 1938-39 were therefore as follows:

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(30a) The report stated that had the province met its interest obligations in full "its position would be a little worse than that of Manitoba, but distinctly better than that of Saskatchewan". However, "interest payments have been reduced by 50%, or \$3,400,000, and, other things being equal, its cash requirements have been reduced by the same amount".



	<u>\$000</u>
New Brunswick	900
Nova Scotia	1,300
Prince Edward Island	275
Manitoba	750
Saskatchewan	1,500
British Columbia	750
	<hr/>
	\$5,475

(The pattern of these grants indicates that it was the outlying provinces during this period which had to appeal to the federal government for special assistance. Only the two central provinces were able to get through the depression without help of this nature. Alberta secured temporary relief by forced reduction of interest charges.)





Chapter 6. Grants for Old Age Pensions, 1927-1938

Since 1927 the Dominion government has co-operated with the provinces in providing old age pensions. These grants differ from the series initiated in 1912-21 in (30b)  
(a) their assumption of what must be a permanent burden  
(b) their actual and potential magnitude and (c) the basis of contribution, which is a fixed percentage of provincial expenditure rather than a flat-rate or per capita sum. Several of the earlier conditional grants were attempts, through federal direction and aid, to launch services which the provinces alone were competent to establish, the expectation being that when they were well established, the Dominion government would be able to reduce or withdraw its assistance without jeopardizing the service.

Grants for old age pensions were undertaken as a joint effort to provide what federal leaders believed to be a desirable social service. Each province was expected to take the initiative to the extent that it would pass legislation, sign an agreement and set up administrative apparatus. The Dominion's part consisted of a contribution of 50% (later 75%) of the sums actually paid out in pensions, together with some supervision and auditing of the disbursements. Early estimates of the prospective cost of these contributions to the federal treasury have been invalidated (a) by the subsequent assumption of 75% of the cost, and (b) by the experience that a considerably larger percentage of the population over 70 than (31) was expected applies and qualifies for the pension. The dates at which pensions became payable in the several provinces are as follows:

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(30b) The agreement can be terminated by the Dominion only after ten years' notice.

(31) 44% by 1936-37; now nearly 50%; House of Commons Debates, 1937, (unrevised), pp. 1978-80.



British Columbia, September 1, 1927;  
Saskatchewan, May 1, 1928;  
Alberta, August 1, 1929;  
Ontario, November 1, 1929;  
Prince Edward Island, July 1, 1933;  
Nova Scotia, March 1, 1934;  
New Brunswick, July 1, 1936;  
Quebec, August 1, 1936. (32)

Total annual contributions of the federal government to 1937 have been as follows:

	<u>\$000</u>
1928 (fiscal year)	131
1929	833
1930	1,537
1931	5,658
1932	10,032
1933	11,511
1934	12,312
1935	14,941
1936	16,763
1937	21,148

The adoption by three provinces of the pension scheme in 1936-37 substantially increased payments in the following fiscal year. Parliament voted \$27.5 million for the purpose in 1937-38 and \$30,540,800 in 1938-39. The Minister of Finance has estimated that by 1941 the present scheme, if continued in its present form, will cost the federal government \$46 million, and \$62 million by 1951.

Financial transfers from the Dominion to the provinces for this one purpose have thus rapidly assumed a leading place in the subsidy system. By 1936 the grant for old age pensions had reached a figure equivalent to the combined statutory and special subsidies, and by 1937 exceeded them by over \$4 million. The excess in the current year (1938-39) is about \$10 million. In one decade this single grant has far outdistanced the whole complex scheme of unconditional subsidies painfully built up since Confederation, to the accompaniment of royal commissions, pilgrimages to Ottawa, and appeals to Downing Street.

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(32) Gettys, op. cit., p. 122.





Chapter 7. Depression Transfers, 1930-38

The depression threw a bombshell into federal-provincial financial relations. Nothing remotely like it (33) had been encountered before. It is true that provinces had sometimes found themselves in temporary financial difficulty, and had been forced to go into debt while exploring new sources of revenue. Revisions of the subsidy system had hitherto proceeded in a reasonably orderly and premeditated fashion, a few hundred thousand dollars additional to this province after a royal commission, or a general revision involving a couple of million dollars for all after an interprovincial conference and lengthy negotiations. When new governmental obligations had gradually arisen which provinces, although constitutionally competent, seemed either unwilling or unable to meet, the Dominion government had, after careful consideration, inaugurated a series of conditional grants to stimulate and assist such services. It is only necessary to review these earlier procedures to see how vastly different was the situation which rapidly developed after 1929.

The onset of the economic depression coincided with the first years of a disastrous drought cycle in western Canada, and under the combined load, the normal technique of government in the worst areas broke down completely. Municipalities and provinces were being required to assume unprecedented new loads at the very time when their revenues were speedily vanishing, and the traditional remedy of borrowing only availed for a short time. The day came for many municipalities and several provinces when the necessary sums could no longer be borrowed even at prohibitive interest

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(33) The aggregate sums contributed by the federal treasury toward unemployment relief in the first post-war depression and the recession of 1925-26 came to less than two million dollars, i.e., about what was needed every two weeks in the depth of the last depression.



rates. Municipalities sought aid from provinces, and the latter, when their credit had been exhausted, appealed to the federal government. The principle of financial independence had to be neglected for a while. The Dominion government not only stepped up its actual grants at a precipitous rate, but found it necessary to make, in addition, large advances (34) to those provinces whose credit had failed.

At one bound these depression transfers surpassed previous high levels in federal grants. In 1931-32 the total (\$33.5 million) exceeded the sum of statutory subsidies, special grants and old age pensions combined. The following year unemployment relief grants amounted to \$33.8 million. In 1933-34 there was a recession to \$28 million but the total rapidly shot upward again to pass the \$50 million mark in 1936-37 and reach \$55 million in 1937-38. In addition to these outright grants, it was necessary to advance some provinces their share of unemployment relief, and eventually loans were needed even for the ordinary administrative expenses of government in the hardest-hit province. These advances, which totalled \$38 million by March 31st, 1933, had risen to \$127 million by March 31st, 1937. (35)

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(34) The depression caught the provinces in a vulnerable position. They were engaged in ambitious public utility programmes (highways and hydro-electric systems), which were adding substantially to debt charges from year to year. In the early stages of the depression, public works were deliberately expanded to provide employment, adding further to debt levels and annual charges. It was not until the depression was well advanced that drastic adjustments began and by that time rising debt-service charges and the steeply increasing costs of unemployment relief and social welfare offset economies on capital works and administration costs. The depression also showed up the inadequacy and inflexibility of some new revenues upon which provinces had come to depend. Motor revenues stood up surprisingly well and responded to higher rates but trading profits, especially on liquor sales, fell off sharply and could not be restored by increasing prices.

(35) Nearly \$19 million of this total is in process of being written off by the Dominion government and will swell the totals of grants for earlier years by that amount. See Dominion budget speech, Feb. 25, 1937.





The magnitude of relief transfers may be illustrated by another comparison. By March 31st, 1938, aggregate unemployment grants to date were equal to one-half of all statutory subsidies paid to all provinces since Confederation.

Relief grants differed from earlier conditional subsidies in a number of respects. They were hastily devised to meet an emergency which, it was confidently expected, would soon pass. The original emergency basis was, in the main, continued from year to year. At first they were to cover (a) works to provide employment or (b) direct relief. Later they came to embrace agricultural relief and rehabilitation, the care of transients, the placing of unemployed persons on farms, agricultural settlement, training camps, and other projects. The grants were usually "conditional" in the sense that conditions were attached to their use, although when percentage grants for direct relief were abandoned in favour of monthly grants-in-aid the latter sums lost their identity by being merged in the general receipts of the province.

The conditions attached to the grants varied according to the year and the region. In the drought stricken area the federal government began by assuming 50% of the cost of direct relief and later assumed 100%. In other parts of the country it was usually shared equally between municipality, province and Dominion. Later monthly lump sums were paid to the provinces, which then made their own arrangements with the municipalities. The cost of relief works was shared in a variety of ways. A chronological account of these provisions, and an appraisal of government experience in administering the grants will be found in two other studies.<sup>(36)</sup>

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(36) See Corry, J.A., Difficulties of Divided Jurisdiction, Chapter VI, and Grauer, A.E., Public Assistance and Social Insurance.



RELIEF EXPENDITURE

(\$000 omitted)

Dominion Payments to Provinces (Net)

	<u>1930/1</u>	<u>1931/2</u>	<u>1932/3</u>	<u>1933/4</u>	<u>1934/5</u>	<u>1935/6</u>	<u>1936/7</u> <sup>x</sup>
Alberta	187	2,566	2,605	1,452	1,646	1,805	3,639
British Columbia	259	3,428	4,079	3,368	3,175	2,274	3,545
Manitoba	306	3,329	2,832	2,469	2,159	3,318	5,060
New Brunswick	250	745	404	606	439	1,121	947
Nova Scotia	62	904	1,377	1,072	796	1,336	1,233
Ontario	1,219	9,351	9,514	11,936	15,538	15,482	15,119
Quebec	319	5,110	5,845	4,669	11,307	7,891	10,363
Saskatchewan	536	7,915	7,104	2,427	8,087	7,154	11,295
Prince Edward Island	22	183	49	21	221	286	316
Total	3,160	33,531	33,809	28,020	43,368	40,667	51,507

<sup>x</sup>Includes \$200,000 - Aid in re-establishment of needy fishermen  
(Vote 314).

1,162,000 - Assistance in provision of transportation  
facilities into mining areas.  
(Vote 343).

93,000 - Improvement of main tourist routes from  
International Boundary to National Parks.  
(Vote 324).





Chapter 8. Current Subsidies and Grants

Subsidies and grants for the latest fiscal years are as follows:

	<u>1937-38</u>	<u>1938-39</u>
Statutory Subsidies	\$ 13,740,000	13,735,000
	(a)	
Special Grants	7,475,000	5,475,000
		(b)
Conditional Grants (other than relief)	(b) 27,750,000	30,750,000
	(c)	
Unemployment grants	<u>55,000,000</u>	<u>(d)</u>
	\$103,965,000	(d)

(a) This includes a special grant of \$2 million for Saskatchewan included in the further supplementary estimates of 1937-38.

(b) These figures are drawn from the estimates of 1937-38 and 1938-39 and are subject to revision. They include the \$150,000 annually for employment service, \$100,000 in 1937-38 for technical education and \$50,000 in 1938-39 for the same purpose. The remainder is for old age pensions.

(c) Preliminary estimate made by the Department of Finance. It includes over \$20 million for drought relief in the west, the entire cost being borne by the federal treasury but administered through the province.

(d) Not yet available.

Chart I and the foregoing table make it clear that federal grants show a tendency to become established on a level (in terms of dollars) far above that which prevailed up to 1930. The sums distributed for unemployment and drought relief in 1936-37 and 1937-38 may be regarded as exceptional, and the current year's figures may be substantially lower. Barring a catastrophe, they should continue a downward trend through gradual elimination of drought relief, even without a decline in the cost of unemployment. But the growth of other grants indicates that reductions in relief transfers will be largely offset by concurrent increases in old age pensions. Even if unemployment relief were wiped out by 1941, the total subsidies and grants payable in that year (assuming no change



meantime in the basis of statutory and special subsidies) would still be at a level over four times that of 1929-30, since by then old age pensions will be costing the Dominion government \$46 million annually.





## Chapter 9. Conclusion

Federal-provincial subsidies should be regarded as a special type of a broad range of financial transfers which are constantly being made in a federal state. The form which the transfers take from time to time will depend on federal policy, constitutional allocation of powers, economic developments, and other factors. A change in these factors will alter the level of provincial subsidies by moving the emphasis from one category of transfers to another.

The federal government, faced by need for rendering financial assistance, may deal with it in a variety of ways: (a) a grant to the provinces, (b) a subvention to the leading industries of the affected area, (c) direct federal action through its own departments, (d) employment of monetary, fiscal or other broad policy. All these ways involve financial transfers, and the division between them may be regarded to a considerable extent as accidental and artificial. It is quite common for a federal government to consider alternative methods of assistance and to combine two or more of the four. For this reason federal subsidies to provinces must be considered in the light of the whole financial and economic operations of the state.

Of these several types of transfers, the subsidy to the provincial governments possesses a geographical definiteness not found in the others (i.e. the grant to a province is for the benefit of the residents living within a political boundary). It is a visible transfer in the sense that the sums are reviewed by parliament and set forth in the public accounts. It is indirect in that it must pass through another government channel (two others in the case of relief grants-in-aid shared with municipalities) before reaching the ultimate recipient.



Less definite are those federal subsidies to regional industries such as sums voted under the Maritime Freight Rates Act, wheat bonuses, coal subventions, grants in aid of fishermen. To the extent to which these subsidies reduce the cost of production, enable marginal industries to survive or even expand, reduce welfare costs, or increase tax resources, they may be regarded as an indirect subsidy to the provincial governments affected. (For the moment, this ignores the obverse side of the operation, namely, the burden on industry and individual effort involved in the collection of taxes to pay these subventions. To deal with the matter thoroughly it would be necessary to consider net benefits to the industries and provinces concerned.) If a depressed industry is co-extensive with a needy group of provinces it may be a problem of some nicety whether the federal government will meet the situation by this form of assistance, or a provincial grant, or both. The direct provincial grant in turn indirectly benefits the area by reducing provincial taxation, increasing provincial expenditure on services, or both.

Another alternative to provincial grants or subventions to private industry, is direct expenditure by the federal government through its own departments. Again, in practice the three may be combined. The drought-stricken area of the prairie has been assisted by increased provincial grants, by wheat bonus schemes, and by a federal rehabilitation scheme, all at the same time. They should be considered as integral parts of one process.

A federal government may attempt to assist depressed areas by a fourth method, namely, the use of tariff, monetary, fiscal, or transportation policy. Though less tangible than the other modes, these policies probably account in practice for more extensive transfers from area to area, industry to industry and individual to individual than all other methods together.





## PART II

### Chapter I. The Subsidy Relationship Between Prince Edward Island and the Dominion

The plan for Confederation drafted at Quebec in 1864 contained provision for the inclusion of Prince Edward Island. The majority of the Prince Edward Island delegates were favourable to union, although the rejection of a resolution (which they presented) for an annual subsidy equivalent to interest on a sum sufficient to buy out the "absentee landlords" of the Island was a sore point. The people of the Island were wholeheartedly opposed to union at this time, as the delegates discovered when they returned home. The Quebec Resolutions, presented to the legislature in the spring of 1865, were decisively defeated.

Both the Imperial government and the provinces planning to enter Confederation were keen to see Prince Edward Island included, and several efforts were put forth between 1865 and 1873. The Maritime delegates, waiting at London in the autumn of 1866 for Sir John A. MacDonald and his colleagues, sought to draft a proposal that would bring Prince Edward Island in: they were prepared to grant \$800,000 toward buying out the landholders, but the Canadian delegates were not prepared to go so far and nothing was accomplished. Lieutenant-Governor Dundas, acting on instructions, did what he could to bring the Island government around. In addition, the Imperial government showed no enthusiasm when it was given an opportunity to assist the Island in solving its difficult problem of land ownership. The Island was advised, moreover, in 1867, that the salary of the Lieutenant-Governor would no longer be borne by the Imperial government but would become a liability of the colonial government. The Island, however, continued to hold aloof.

Friends of Confederation in Prince Edward Island believed in 1869 that the time was propitious for another effort.



In December of that year the Dominion government offered the following terms: a subsidy in support of government of \$25,000, a debt allowance of \$25 per head based on the census of 1861, a population subsidy of 80 cents per capita on the same basis, \$800,000 to buy out the absentee proprietors, and efficient steam communication winter and summer between the Island and the mainland.<sup>(1)</sup> The government of the Island, however, rejected the offer as inadequate.

Meantime, the fiscal affairs of the Island entered a troublesome period. The colony's debt was rising steeply as a result of railway construction, and her credit began to suffer. When an attempt was made to float a badly needed loan in the Canadian market in the fall of 1872, the Island was able to secure only \$26,000 for four months at a rate of  $7\frac{1}{2}$  per cent. Friends of union made the most of the argument that Confederation would greatly strengthen the Island's position; bankers added that it would improve her credit. After several months of correspondence, a delegation headed by Premier R.P. Haythorne proceeded, in February 1873, to the Dominion capital. The terms now offered were materially better than those of 1869: \$30,000 a year for government, \$45,000 a year on land account (a sum, which, when capitalized at 5 per cent, represented an increase of \$100,000 over the earlier offer, a debt allowance of \$45 per head on the census figures of 1871 (that is, \$4,231,000 instead of \$2,021,000) and continuous steam communication between the Island and the mainland.<sup>(2)</sup>

The Haythorne ministry had undertaken to submit the proposals to the electorate. J.C. Pope, his opponent, promising if elected to obtain better terms, was successful in the subsequent elections, and shortly afterwards left on a pilgrimage to Ottawa. At first the Dominion refused to consider any

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(1) Prince Edward Island, Journal of Assembly, 1870, Appendix F.

(2) Ibid. 1873, Appendix O.





revision of the earlier offer, but eventually it permitted one change in the agreements reached by Haythorne and the Dominion: the per capita rate of the debt allowance was increased to \$50; this rate provided an allowance of \$4,701,000 in contrast to the former \$4,231,000. In addition, the Dominion agreed to provide any sum up to \$800,000 for the purchase of public land, but the annual subsidy in lieu of land would be decreased proportionately with the sum advanced.<sup>(3)</sup> The Prince Edward Island legislature approved this arrangement and the Island became a part of the Dominion in the same year, under the terms outlined above.

(Several considerations affected the decision to set the debt allowance at \$50 per head: Prince Edward Island stressed the point that it could not benefit like the other provinces from the heavy Dominion expenditures on railways and canals, a general upward revision of the debt allowance was being worked out for the other provinces, and finally, the Island's actual debt exceeded \$40 per head.)

During the first year of union, the Island received the following grants:

Population subsidy	\$ 75,200
Interest on debt allowance	130,600
Grant for government	30,000
.Subsidy in lieu of land	<u>45,000</u>
TOTAL	\$280,800

Since entering Confederation, Prince Edward Island has put forward a series of claims (a) seeking a share of the Halifax Fisheries award (b) protesting non-fulfilment of the terms of Confederation and (c) pleading fiscal disability.

The first of these claims was advanced in 1879. Two years earlier, the United States had paid over to the British government a sum of \$5,500,000, as awarded by the Halifax

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(3) Ibid.



tribunal in compensation for fishing privileges in British North American waters. The Imperial Government allotted \$1,000,000 to Newfoundland and turned over the remainder to Canada. Prince Edward Island now made a bid for a portion of this sum. It submitted the following case:

The fisheries had always been a major source of provincial wealth. Inasmuch as the Island had ceased to be a colony of Great Britain when it united with Canada on July 1, 1873, (the date on which the fisheries concession became effective), reimbursement had to be sought from the Dominion. Although the terms of union did not cover the Halifax Award, the Island had every reason to expect a share because the fishing privilege was territorial; if Prince Edward Island had remained outside the Dominion, its claim would have been recognized along with that of Newfoundland. As it was, Prince Edward Island had given its approval to inshore fishing by a legislative act in 1872; thus, at least, the Island was entitled to the amount of the award which had accrued before July 1, 1873, when it had joined the Dominion. If the Dominion retained the entire sum, all the provinces would benefit at the expense of those provinces in which the concession operated. Since Newfoundland was entitled to \$1,000,000 as its share, Prince Edward Island could not take a cent less than \$1,250,000. The Province indicated also the manner in which the sum was to be received:

"They further submit that no appropriation of our share of the award by the general government for the construction of public works would be just or satisfactory; that the decision which best recommends itself, as most just, would be the funding of the amount by the Dominion government, for the benefit of the Island, and the payment thereto, semi-annually, of the interest for the purpose of its local administration." (4)

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(4) Dominion Sessional Papers, 1885, Vol.10, No.34, pp.384-385.





The Dominion made no effort to satisfy this claim.

Petitions from Nova Scotia and New Brunswick in a similar vein  
(5)  
were treated likewise.

In June of the same year, the Island sent the Dominion another communication which repeated the arguments of the previous presentation with particular emphasis upon a claim for the period prior to July 1, 1873. After an examination of the petition, the Dominion Privy Council reported on December 10, 1879, that the Washington Treaty did not go into effect until July 1, 1873, the day upon which the Province became a member of the union, and since compensation was computed for the twelve years after July 1, 1873, Prince Edward Island was "not entitled to make any claim upon the money awarded to be paid for the use of the fisheries by the United States which the other provinces of the Dominion would not be equally  
(6)  
entitled to put forward. Accordingly, this claim was also rejected.

When the Dominion Parliament, on April 7, 1880, enacted legislation to consolidate the Halifax Award with the general revenue fund of the Dominion, Prince Edward Island immediately asked the Governor-General to transmit its claim to the Imperial Government. Consequently, in October, 1880, copies of the Island Memorials, the Dominion rejection of the claim for special treatment, and the Dominion statute were sent to the Colonial Secretary. The Imperial Government through the Colonial Secretary, Lord Kimberley, replied on December 18 of that year that since Prince Edward Island had become a part of the Dominion as of July 1, 1873, the Dominion had entire regulation of its fisheries from that date and the Imperial authorities could not "interpose and require the Dominion govern-  
(7)  
ment to apportion it among the different provinces." This

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(5) Ibid., pp. 380 ff.

(6) Ibid., p.398.

(7) Ibid., p.413.



(8)  
decision definitely closed that avenue of approach. The quest for a portion of the fisheries award was settled to the satisfaction of the Island in 1882, when the Dominion Parliament passed an act to encourage the development of deep sea fisheries and the building of fishing vessels through the yearly distribution of \$150,000 as bounties to fishermen and to the owners of vessels; details of the allocation were to be decided each year by an Order in Council. (9)

Another type of claim was begun in April, 1881, when the Island legislature forwarded an address to the Dominion to call attention to the non-fulfilment of the terms of union. The address cited the engagement by which the Dominion agreed to maintain continuous steamship service for the conveyance of mail and passengers between the Island and the mainland. The Island complained that there had been no winter service, and the service which had been provided had been very irregular. As a result, the trade and manufacturing of the Island had experienced great loss. The Province asked that it be compensated for this failure to provide communication. (10)  
The Dominion government completely ignored this claim.

In the following two years, 1882 and 1883, Prince Edward Island renewed its complaint. The Province protested that the Dominion had made no reply to its petition of 1881, nor had any attempt been made to improve the service. The dispatch of 1883 stated:

"Nearly ten years have now elapsed since that event (union with the Dominion) and but an abortive attempt has been made by the general government to carry out the solemn engagement with which they entered.

"To carry out the terms of Confederation with British Columbia the Dominion is expending an immense sum of money in the construction of the Pacific Railway; yet to provide the means of communication between two Provinces, over a distance of scarcely 9 miles, and thus fulfill an obligation equally as heavy as that with British Columbia, the general government had displayed a marked indifference." (11)

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(8) Ibid., pp.399-414

(9) 45 Victoria, c.18.

(10) Dominion Sessional Papers, 1885, Vol.10, No.34, pp.415-417, 423-424.

(11) Ibid., p.431.





The Province demanded an immediate reply to this communication, otherwise it would be compelled to approach Her Majesty the Queen concerning this "most serious violation of the terms of Union."<sup>(12)</sup>

In February, 1883, the Dominion Parliament referred the matter of communication between the mainland and the Prince Edward Island to a committee for investigation. The report of the committee exonerated the Dominion from any blame for the lack of service because at certain times during the winter ice prevented the passage of a steamer to the Island. The Dominion apparently had done all in its power to fulfil its obligation as the terms of union were manifestly impossible to execute. Therefore, the committee recommended that no compensation was due Prince Edward Island. As a consequence, the Dominion ignored the petition of the Island.<sup>(13)</sup>

The decision of the Parliamentary Committee did not terminate the efforts of Prince Edward Island for in 1884 a further address was sent to the Dominion. The Island asked compensation of \$5,000,000 for faulty communication and threatened to carry the matter to the Imperial Government if the Dominion failed to reply to its communication. After waiting for almost a year, the Island decided to give the Dominion one more opportunity. In March, 1885, a joint address of the Houses of Legislature was dispatched to the Dominion; they demand immediate negotiations and a settlement of the controversy. When the Island received no reply from the Dominion, it sent a delegation in February, 1886, to lay its case before the Imperial Government. Lord Granville, the Colonial Secretary, received the delegation but asserted that, although he would be pleased to act as a mediator, the Queen had no power under

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(12) Ibid., pp.431-432.

(13) Ibid., 1886, Vol.13, No.76, pp.1-29.



any statute to intervene in Canadian affairs. (14) With this statement, Prince Edward Island had to be content. Nevertheless, the Imperial Government directed the attention of the Dominion to the subject and, although it disclaimed any judgment of the claim, it expressed the hope that something would be done about the matter by the Dominion. Lord Granville referred the Dominion to the proposal for the construction of a tunnel between the mainland and the Island contemplated at that time. The tunnel plan was soon dropped, as not being practicable. (15) As a result of the Imperial reminder, a new steamer was placed in service by the Dominion, but no compensation for past failure of communication was awarded. Thereafter, trade and manufacturing on the Island increased greatly in volume and profit.

In 1884, the terms under which Prince Edward Island entered the Dominion underwent one revision. The debt allowance of the Island was increased by \$183,000; (16) this change resulted from Dominion action to antedate to 1867 the increases in the debt allowances of all the provinces made in 1873 when the excess debt of Ontario and Quebec was assumed by the Dominion. Prince Edward Island had not participated in the revision of 1873 because that was the year in which the Province entered the Union. (17)

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(14) Ibid., pp.32-34.

(15) House of Commons Debates, 1901, p.4675

(16) 47 Victoria, c.4.

(17) At this time, several minor claims against the Dominion were settled to the satisfaction of Prince Edward Island. Although the control of penitentiaries in all provinces rested in the Dominion, Prince Edward Island bore all prison charges from 1873 to 1878 because there was a delay in defining a penitentiary and in the extension of Dominion criminal law to the Island. The Dominion readily agreed to indemnify the Island, but the sum claimed appeared excessive. After continual bickering, Prince Edward Island accepted \$20,700 in 1882 in full settlement of the obligation. (Dominion Sessional Papers, 1885, Vol.10, No.34, pp.463 ff.)

The Province also requested a refund of \$124,200 for expenditures upon wharves and piers which were declared to be within Dominion jurisdiction by the case of Holman v. Green, 6 S.C.R.707 (1882). A Dominion survey in 1884 set the indemnity at \$64,200, but this sum the Island rejected as inadequate. Finally, the Province accepted \$76,200 in settlement for all expenditures upon wharves and piers. (Prince Edward Island, Journal of Assembly, 1884, Appendix H.)





In 1886, Prince Edward Island made a third type of claim: equality of benefit in the Union. In a petition to the Dominion, the government of Prince Edward Island pointed out that since 1882 the Dominion had subsidized local railways in various provinces, but Prince Edward Island had none to develop and could not share in this aid. In addition, the Island, because of its insular position could not benefit from the Dominion railway systems as did the other provinces. When the Island joined the Union in 1873, its debt allowance had taken into account an estimated sum to be spent by the Dominion upon the Canadian Pacific and Intercolonial Railways but this estimate had been greatly exceeded. Therefore, as compensation for its inability to secure local railway subsidies, to participate in the Dominion railways, and as reimbursement for the excess sums spent upon these Dominion lines, the Island urged that its subsidy be increased.

After examination, the Dominion government found these claims justifiable and introduced a bill in Parliament to grant the Island an extra subsidy of \$20,000 as compensation for these disadvantages. A Prince Edward Island representative in the House of Commons, William Welsh, stated that although this sum would be accepted by the Island it could not be considered as full compensation for all the disabilities suffered by the Province. He listed claims totalling \$5,000,000 and insisted that the \$20,000 was sufficient for only the excess expenditure upon the Intercolonial Railway. He declared, "I maintain this is only a drop, a measure of justice."<sup>(18)</sup> Despite his plea, Parlia-<sup>(19)</sup>ment enacted the Bill in its proposed form.

The Provincial Conference of 1887 did not find Prince Edward Island in attendance, partly because it had recently received an extra subsidy from the Dominion, and partly

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(18) Ibid., 1887, p.817.

(19) 50-51 Victoria, c.8.



because of the political friendship between the Premier and Sir John A. MacDonald. After the grant of 1887, the Island was satisfied with its relationship with the Dominion for nearly ten years. In April, 1897, the Province dispatched to the Dominion a memorial which renewed several of the earlier claims. The first claim concerned the non-fulfilment of steam communication: the Island conceded that the Dominion had made efforts to provide satisfactory service but continuous communication was a pledge which should have been fulfilled; the Province asked a reasonable sum for this violation of twenty years duration. The second claim involved Dominion railway subsidies and the Canadian Pacific and Intercolonial Railways estimates made in 1873: the Province considered the \$20,000 awarded in 1887 inadequate indemnity for the disadvantages suffered and, inasmuch as additional Dominion expenditures upon railways and canals had been made since 1887, further compensation was due. The memorandum closed with the statement:

"Our claims are either just or unjust; they either ought to be paid or they out to be refused ... We are willing to submit these claims to an independent Commission consisting say of three men, one to be appointed by the Province; one by the Dominion government, and one in any other way that may be agreed upon." (20)

The Island suggested that the report of this Commission need not be binding but could serve merely as a basis for agreement between the Province and the Dominion. The Dominion refused to give any consideration to this request. (21)

In March, 1898, the Province submitted another memorial in which the same claims and a request for a Commission were again renewed. The Island's claims may be summarized as follows:

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(20) Dominion Sessional Papers, 1897, Vol.13, No.56, p.28.

(21) Ibid., pp.26-28.





The estimated expenditure upon canals, the Inter-colonial Railway and the Canadian Pacific Railway was to have totalled \$65,000,000 but \$75,000,000 actually had been expended. Therefore, the per capita debt figure of the Island at Confederation should have been \$61.72 instead of \$50 or a debt allowance of \$5,800,000, i.e. \$1,100,000 more than allowed in 1873. The estimated sum for buildings and subsidized railways in other provinces in 1873 had been \$14,000,000 but \$41,100,000 had been spent by 1898. If this excess were also included the Province should have entered the Union with a debt allowance of \$6,900,000, or \$73.13 per capita. Therefore, the Province demanded that its debt allowance be increased by \$2,200,000. In addition, Prince Edward Island renewed its claim for a share of the Halifax Award but upon different grounds than had been advanced previously. The Province asked reimbursement for the entire sum which the Dominion had received for the use of Island fisheries during the period from July, 1871, when the Province, by Order-in-Council, had admitted American fishermen to its waters, and July, 1873, when Prince Edward Island had entered the Union. The Province contended that the Halifax Commission had taken this period into account (22) in its award.

In March, 1899, the Dominion Premier, Sir Wilfrid Laurier, replied to these claims in a letter to the Island Secretary, the Hon. D. Farquharson. He announced that the Dominion Parliament had appropriated \$180,000 for the construction of another steamer, so constant service could be maintained between the Island and the mainland; inasmuch as service

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(22) Dominion Sessional Papers, 1898, Vol.13, No.84, pp.2-8.  
Dominion Sessional Papers, 1899, Vol.14, No.104, pp.1 ff.



had improved since 1890, as the Province admitted, and inasmuch as compensation had been awarded for the period prior to 1890 no claim remained to be settled. Since the Island was contemplating the construction of a railway from Charlottetown to Murray Harbour with Dominion aid, the Prime Minister intimated that the Dominion could not give a definite answer to the complaint against railway expenditures in excess of the 1873 estimates. Laurier asserted that the Halifax Commission had made no award for the period prior to July 1, 1873, and it was the misfortune of Prince Edward Island that it had granted this concession prematurely. (23)

The Dominion communication did not satisfy the people of Prince Edward Island because the main purpose of the claims - to enlarge the annual subsidy - had not been achieved. The Island government elected in 1900 was pledged to secure some financial aid from the Dominion. Consequently, a deputation visited Ottawa in March, 1901. In addition to the demands advanced previously, the delegation claimed credit for the \$3,250,000 which the Province had spent upon the Prince Edward Island railway before Confederation. The deputation pleaded that Prince Edward Island was in an anomalous situation because it was an island and lacked forest and mineral resources; the falling value of the Island's products had impoverished the Province; the people could not bear the introduction of sufficient direct taxation to meet the annual deficits, but the government would increase taxes to some extent if the Dominion would compensate the Island for its lack of mines, forests, and fisheries. (24) Since the Dominion failed to act upon this presentation, the Island again approached the Dominion government in April. The Province blamed the Dominion for its

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(23) Ibid., pp.9-11.

(24) The Canadian Annual Review of Political Affairs, 1902, Toronto, 1902, pp.474-475.





financial difficulties because the non-fulfilment of the communication pledge had resulted in a severe loss of trade and commerce. Prince Edward Island demanded that justice be secured either by arbitration of its claims or by an agreement between the Governments for the payment of a lump sum or an annual subsidy.<sup>(25)</sup>

On May 8, 1901, the Dominion Finance Minister, the Hon. W.S. Fielding, in his budget speech stated that the Dominion Government had decided to establish an annual extra subsidy of \$30,000 (representing interest at 3% on \$1,000,000) to compensate the Island for the lack of communication service from 1873 to 1888. No damages would be allowed for the period subsequent to 1888 for the Province admitted that the service had improved since then. He explained the condition upon which this sum would be awarded:

"Such allowance should be paid and accepted in full settlement of all claims of the said province against Dominion of Canada on account of alleged non-fulfilment of the terms of union." (26)

Several members of the Dominion Parliament expressed the opinion that the Dominion could remove the liability cheaply because the Province had earlier claimed \$5,000,000 damage. Parliament proceeded to enact a statute authorizing the \$30,000 subsidy.<sup>(27)</sup> The Island government announced that it was very pleased to accept this sum, but as the settlement of only one claim; the Island had other claims which could be pressed upon the Dominion.<sup>(28)</sup>

Prince Edward Island did not take an active part in the Provincial Conference of 1902; but it did approve the resolution for increased subsidies. The Island also participated

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(25) Ibid.

(26) House of Commons Debates, 1901, p.4675.

(27) I Edward VII, c.3.

(28) House of Commons Debates, 1901, pp.4675-4738.



in the Dominion-Provincial Conference of 1906 which drafted a revision of the subsidy relationship under the British North America Act. When Parliament was considering an address to His Majesty for the enactment of these revisions, members from Prince Edward Island sought to have the terms include an extra sum of \$100,000 yearly for the Island. However, the other members of Parliament refused to make this concession and the original scheme was approved. (29) Under the terms of 1907, Prince Edward Island's allowance for government was raised from \$30,000 to \$100,000. The removal of the 400,000 limit for the population subsidy did not benefit the Province because its population was not and never has been above 110,000. The total increase in the Island subsidy in 1907 was 33%.

After the award of 1901, Prince Edward Island did not approach the Dominion again until late in 1911 when a deputation visited Ottawa and submitted a memorial. The delegation asserted that the Island had joined the Union upon the promise that it would have sufficient revenue that it would never have to resort to direct taxation, although there is no evidence of such a promise. The claims now made may be summarized as follows:

Prince Edward Island had been very economical but it could not avoid deficits: governmental expenditures had increased by \$179,000 but its subsidy had been enlarged by only \$81,000; thus, \$98,000 had to be raised locally by direct taxation. The fiscal troubles in the Island had been caused by two factors: 1. Failure of Canada to provide continuous steam communication; and 2. The insufficiency of subsidies to meet the needs of the Province. As a result of the former, the Island lost \$5,000,000 but this claim had been sold out in 1901 for \$30,000 a year. The

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(29) 6-7 Edward VII, c.11.





deputation asked reimbursement for the non-fulfilment of steam communication since 1901; for example, in 1902-03, there were forty-five days when no trips had been made and thirty-three days when only half-way service had been provided. Thus, if continuous steam navigation had been promised, this obligation had still not been fulfilled by 1911. The Province also asked compensation for the public land about to be transferred to the Prairie Provinces, for the Island had contributed to the Dominion revenue which had purchased and equipped these lands; in the United States, new lands were distributed to all the States and the same principle should have been adopted in Canada. The Island demanded indemnity for the sums spent on canals and railways by the Dominion since 1887, when \$20,000 a year had been awarded on this account. The Provincial government urged that an extra subsidy be granted for education because the Island could not benefit from the terms of 1907 inasmuch as its population was decreasing. The memorial requested that the basis for the per capita subsidy should be 80,000 persons, the estimated population employed in reference to other provinces. (There appear to have been no grounds for this argument, because the estimated population of the other provinces had been placed at various figures according to the sums the Dominion had desired to grant to the provinces.) Finally, the Island pleaded that its people could not support increased taxation. The memorial concluded:

"It is further submitted that Canada with its abounding revenues can now well afford the necessary relief, but cannot afford to permit the smallest province to be crushed under the burden of debt which now lies upon it.

"The claim of the province to a share of the Fishery Award is presented separately. Other claims are reserved for future presentation. (30)



Sir Thomas White, Minister of Finance, who handled the matter for the Dominion, was impressed by these claims, and in 1912, the Dominion government sponsored the passage of a parliamentary act which awarded the Island an increased extra (31) subsidy of \$100,000 yearly. This grant was not in settlement of a particular claim but was granted because Prince Edward Island had not benefited from membership with the Union. The extra subsidy more than satisfied the desires of Prince Edward Island at that time.

The efforts of Prince Edward Island to obtain increased subsidies in the years following 1912 were taken in conjunction with Nova Scotia and New Brunswick. In addition to concurring in the claims put forward by the other Maritime provinces to the Duncan Commission as previously noted, Prince Edward Island argued that it had spent \$990,000 for the purchase of public land; this sum was \$190,000 more than the Dominion had allowed for this purpose in the terms of union. The provinces claimed that the Dominion was responsible for their lack of prosperity and was liable for aid which would bring them at least balanced accounts.

(The accompanying table shows the conditional subsidies received by Prince Edward Island since they were instituted in 1912.)

The interim payment suggested for Prince Edward Island by the Duncan Commission was \$125,000. The Commission suggested that the proposed revision of subsidies should take into account the excess sum spent by Prince Edward Island upon (32) its public land.

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(31) 2 George V, c.42.

(32) Report of the Royal Commission on Maritime Claims, Ottawa, 1926, pp.11-17.

In addition, the Commission recommended a reduction of 20% in freight rates to the Maritime Provinces. This recommendation was made effective by the Maritime Freight Rates Act, 1927. There were other recommendations of minor importance which were not concerned with the subsidy relationship.





CONDITIONAL SUBSIDY PAYMENTS TO PRINCE EDWARD ISLAND

Year	Agricultural Instruction Act	Co-ordination of Employment Offices	Canada Highways Act	Technical Education Act	Eradication of Venereal Diseases	Old Age Pensions
1912-13	\$ 6,530					
1913-14	26,530					
1914-15	27,833					
1915-16	29,138					
1916-17	30,444					
1917-18	31,749					
1918-19	31,749					
1919-20	31,749					
1920-21	31,749		\$ 40,265	\$ 2,701		
1921-22	31,749		103,494	7,242		
1922-23	31,749		106,277	5,858		
1923-24	27,068		124,079	6,551		
1924-25			34,159	1,951		
1925-26			180,025	7,255		
1926-27			15,156	7,757		
1927-28				11,982	\$ 174	
1928-29				20,370	205	
1929-30				22,117	619	
1930-31				30,790	979	
1931-32				31,899		
1932-33				29,371		\$ 74,125
1933-34				12,345		128,856
1934-35						148,007
1935-36						161,528
1936-37						
Totals	\$338,038		\$603,455	\$198,188	\$1,977	\$512,516



In 1934 in its submission to the White Commission, Prince Edward Island asserted that it had an annual deficit of \$165,000, and if mothers' allowances and old age pensions were instituted, the Province would require \$600,000 more than it could produce.

In reference to Prince Edward Island, the Commission concluded that the Island should be credited with the cost of the Prince Edward Island Railway which had been turned over to the Dominion in 1873. The excess of \$190,000 spent for public land was deemed to have been covered by the award of \$100,000 in 1912 and therefore rejected. The Commission proposed an annual sum of \$275,000 to supersede the temporary grant allowed the Island by the Duncan Commission; this sum has since been paid annually to the Province. (33)

There remains one other subsidy relationship between Prince Edward Island and the Dominion which requires consideration. Beginning in 1930, the Dominion has provided the provinces with grants to aid in meeting relief costs. Prince Edward Island has obtained the following payments:

<u>Year</u>	<u>Amount</u>
1930-31	\$ 22,000
1931-32	183,000
1932-33	49,000
1933-34	21,000
1934-35	222,000
1935-36	292,000
1936-37	<u>291,000</u>
Total to March 31, 1937	\$1,080,000

At the present time, Prince Edward Island obtains the following annual subsidies:

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(33) Ibid., pp.17-18.





Population subsidy	\$ 87,300
Interest on debt allowance	38,800
Grant for government	100,000
Land subsidy	45,000
Extra subsidy (awarded 1887)	20,000
Extra subsidy (awarded 1901)	30,000
Extra subsidy (awarded 1911)	100,000
White subsidy (awarded 1935)	<u>275,000</u>
Total	\$ 696,100
Less interest on land advances	<u>39,100</u>
	\$ 657,000

To March 31, 1937, the amount received by the Island from the Dominion totalled \$21,600,000, which represented subsidies of \$18,900,000, conditional subsidies of \$1,600,000, and \$1,100,000 from relief grants.



Chapter II.    The Subsidy Relationship Between  
Nova Scotia and the Dominion

As an original member of the Dominion, Nova Scotia obtained the regular allowances and grants established by the British North America Act, 1867. These terms provided Nova Scotia with:

1. An annual subsidy of \$265,000 calculated at the rate of 80 cents per head on a population of 330,900 in 1861 - this subsidy was to be revised every ten years until the population of the Province exceeded 400,000;
2. Interest upon a debt balance, after deduction of the debt of Nova Scotia from an allowed debt of \$8,000,000;
3. An annual allowance of \$60,000 for the aid of government and legislature.

The first annual subsidy received by Nova Scotia totalled  
(1)  
\$325,000.

Nova Scotia suffered from an economic depression during the first few years of union partly due to the loss of markets in the United States. The Nova Scotians, led by the Hon. Joseph Howe, were inclined to blame their fiscal difficulties upon the financial terms under which they had entered Confederation. This feeling finally became so intense that a delegation was sent to London in 1868 to seek repeal of the Act of 1867. Although the British government heard the complaint concerning the economic condition, it refused to take any action for repeal. However, it suggested to the Dominion government that the complaints of Nova Scotia might bear investigation.

As a consequence of this, the Dominion Prime Minister, Sir John A. Macdonald, who was anxious to bring harmony within the Union, wrote to Howe on October 6, 1868:

"The Canadian governments are not only ready but anxious to enter upon a frank and full discussion of these points, and are prepared, in case the pressure of taxation should be shown to be unequal or unjust to Nova Scotia, to relieve that pressure by every means in their power. They are also ready to discuss any financial or commercial questions that may be raised by the Nova Scotian Government

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(1) This total did not include any interest on the debt allowance because the balance had not been definitely calculated at that date.





"or yourself and representatives of Nova Scotia in the Parliament of the Dominion....." (2)

The Hon. Joseph Howe and the Hon. A. W. McLellan, under orders of the Nova Scotian Legislature, submitted memorials on behalf of Nova Scotia to the Dominion government. (3) These representations were referred for examination to the Hon. John Rose, the Finance Minister of the Dominion. The following claims and protests were raised on behalf of Nova Scotia:

"That population should not have been admitted as the sole basis, either of establishing the debt or payment of the subsidy, but that the extent of previous contributions by each province to the revenue should also have been considered; that even if the basis of population were just, the estimates of the number is unfair to Nova Scotia, because the percentage of assured increase to her number since the census of 1861 is less than allowed to Ontario and Quebec and below what it should have been;

"That Ontario and Quebec, forming the old province of Canada, possessed productive assets, which were retained by them, as their own property; that these assets represented their debt per head, and being affected by the stipulated deduction for an excess debt, but were actually available as sources of additional income beyond the amount contributed by the dominion treasury; that Nova Scotia possessed no corresponding class of assets, or if she did, that they were by the union act taken possession of by the dominion;

"She further contends that apart from these considerations of relative injustice, the practical effect on her has been that whereas her tariff on imports from which nearly the entire revenue was derived, and which was the only burden on the people, was on an average less than ten per cent ad valorem, it has now been raised to upward of 15 per cent; that there have been super-added: 1st. Duties of Excise; 2nd. A Stamp Tax; 3rd. A tax on bank circulation; and 4th. Additional postage on newspapers;

"It is further urged that notwithstanding this increase in her burdens, the total amount to be received by her from the dominion treasury, and from the provincial sources of revenue, and the assets reserved to her fall far short of what she formerly had, and are less indeed than is necessary to carry on the Government, and provide for the local services which the new constitution has assigned to her". (4)

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(2) Dominion Sessional Papers, 1869, Vol.5, No. 9, p.3; Ibid., 1885, Vol.10, No.34; Journal of the House of Nova Scotia, 1886, Appendix 12, pp.2-3.

(3) The correspondence between Macdonald and Howe is reproduced in the Dominion Sessional Papers, 1869, Vol.5, No.9.

(4) Journal of the House of Nova Scotia, 1869, Appendix No.1, p.13.



After a careful examination of these arguments, the Hon. Mr. Rose drew up a Report dated November 10, 1868, concerning the "Financial Conditions of Nova Scotia"; he concluded that there had been some unfairness in the Nova Scotia debt allowance, but if the amount of revenue contributed to the federal government had been used as a basis for the calculation of the Nova Scotia subsidy instead of the population of the Province, Nova Scotia would have been entitled to only slightly more. As for the second point, the Hon. Mr. Rose reported that as a result of the division of property and assets at Confederation, Nova Scotia was not so competent to meet its expenditures as the other provinces, but this financial debility was attributable to conditions in Nova Scotia and not to any inequitable distribution of the original property of the provinces. He asserted that the railway assets and public works contributed by Ontario and Quebec were as valuable as those relinquished by Nova Scotia and the retention of local assets by these two provinces had not been unjust to Nova Scotia.

(At the Quebec Conference, both Tupper and Tilley called attention to the "productive" nature of the assets which they would turn over to the Dominion. Both Nova Scotia and New Brunswick had undertaken railway construction directly, which was not done in Upper or Lower Canada. These railways in the Maritimes were responsible for the major part of the debts which were to be assumed by the Dominion. Both then and since they have been referred to in terms which suggest that they were profitable by ordinary commercial standards. The accounts of the Nova Scotia Railways show the following earnings: year ended December 31, 1859, operating deficit of \$8,397; December 31, 1860, operating surplus \$20,271; December 31, 1861, operating surplus \$26,803; December 31, 1862, operating surplus \$21,712; September 30, 1864 (nine months), operating surplus \$23,512; September 30, 1865, operating surplus \$25,883;





September 30, 1866, operating surplus \$34,168; June 30, 1867 (nine months), operating surplus \$22,700. As at July 1, 1867 accumulated advances by the Receiver General for railway construction and expenditure were \$6,382,966. In none of the above years did the railways earn as much as one per cent of the capital employed in constructing them.)

The Finance Minister agreed that the Dominion customs duties, which were higher than the former ones of Nova Scotia, pressed more directly upon Nova Scotia than upon any other province, but that this pressure would be greatly decreased as goods produced in Canada (which were free of duty) were substituted for those imported from abroad. He concluded his report with the statement:

"The local sources of revenue at present possessed by Nova Scotia are inadequate to carry on the service devolving on the Province". (5)

However, the Finance Minister made no suggestions as to what remedy should be taken to correct the financial difficulties of Nova Scotia for he believed that such action was "beyond  
(6)  
his province".

The Dominion government examined with care the report of its Finance Minister and subsequently determined that Nova Scotia should be granted relief. The Hon. Mr. Rose was commissioned to suggest either the grant of additional sums or a revision of the subsidy. In a subsequent report to the Privy Council of January 24, 1869, the Finance Minister concluded that the most equitable solution would be to place the Province of Nova Scotia on the same footing as New Brunswick since conditions in Nova Scotia were analogous to those which had resulted in the grant of the extra ten-year subsidy of

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(5) Dominion Sessional Papers, 1885, Vol.10, No.54, p.19.

(6) The Report is included in Dominion Sessional Papers, 1885, Vol.10, No.34, pp.8-19. Rose drew heavily upon a Memorandum of the Auditor General, John Langton, who made a study of the case presented by Nova Scotia. The latter suggested as a remedy that direct taxation be employed in Nova Scotia to meet local expenditures, or the municipalities undertake the expense of the educational system, as was done in Ontario and Quebec. Rose did not see fit to adopt these recommendations. Langton's Memorandum is in the same source as Rose's Report, pp.19-38.



\$63,000 for New Brunswick in 1867. His recommendations were:

- "1. That Nova Scotia would be entitled to enter the Union with a debt of \$9,200,000 and to be relieved from any charge of interest unless her debt exceeds that sum.
- "2. That she would receive for ten years from 1st July, 1867, a subsidy of \$83,000 annually." (7)

These recommendations were approved and the Dominion Parliament enacted legislation to grant an extra subsidy for ten years and to place the debt allowance of Nova Scotia on a per capita basis of \$27.77.<sup>(8)</sup> No change was made, however, in the basic rate of Ontario and Quebec, which remained at \$24.92 per capita. On May 25, 1869, the Nova Scotia legislature adopted a Resolution which accepted the increased subsidy as an instalment of the amount justly due the Province, but which reserved "the right to demand from said government such further sum or sums of money as, upon a full investigation of the statistics in regard to population, public property, and increased taxation, will more fully appear."<sup>(9)</sup> By this action, Nova Scotia attempted to prepare the way for further demands upon the Dominion, despite the prohibition of additional allowances in the final-<sup>(10)</sup>ity clause of the British North America Act, 1867.

When the bill dealing with these awards was under discussion in the House of Commons, representatives from the Province of Ontario questioned the constitutionality of the measure, for the settlement of 1867 was to have been final. The Dominion government consulted the Imperial Government, which in turn sought the opinion of their law officers. The latter "advised that the Act is one which it was competent for the Parliament of Canada to pass under the powers vested in it by the 91st section of the British North America Act, 1867." Although Ontario

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(7) Journal of the House of Nova Scotia, 1869, Appendix No.1, p.195.

(8) 32-33 Victoria, c.3.

(9) Journal of the House of Nova Scotia, 1869, Appendix No.1, p.44.

(10) Section 118.





could not prevent passage of the bill, it made an effort to prevent subsequent readjustments. The Provincial Legislature on December 1, 1869, addressed a Prayer to the Throne asserting that since the financial arrangements as embodied in the Act of 1867 to be "in full settlement of all future demands on Canada", the new subsidy for Nova Scotia would re-establish the possibility of future demands upon the Dominion, would engender sectional strife, and would endanger the Canadian constitution. It further resolved:

"That no such change as is effected by the Nova Scotia Act should have been made without a general revision and readjustment of the financial arrangements as between the several Provinces.....

"That in the opinion of this House the interest of the country requires such legislation as may remove all color for the assumption, by the Parliament of Canada, of the power to disturb the financial relations established by the Union Act between Canada and the several Provinces." (11)

The Governor-General in January, 1870, sent this address to the Colonial Secretary, Lord Granville, who replied in February that Her Majesty could not accede to Ontario's Prayer because the law officers of the Crown had already determined that the Canadian Parliament possessed this authority. (12) Therefore, revisionary power of the Dominion Parliament continued unhampered. The precedent established in the case of Nova Scotia has since given rise to constant requests for financial aid, not only from Nova Scotia, but also from other provinces, and the Dominion in many instances has provided relief.

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(11) Journal of the House of Assembly of Ontario, 1869, p.40.

(12) Ibid., pp.39-40; Dominion Sessional Papers, 1870, Vol.5, No.25; Ibid., 1885, Vol. 10, No.34, pp. 34-48.



In 1873, when the Dominion increased the provincial debt allowances of 1867, Nova Scotia insisted that this increase should apply to the augmented sum of the Act of 1869. After a series of resolutions presented by order of the provincial legislature, the Dominion acquiesced and the increase was  
(13)  
allowed. Instead of \$1,345,000, Nova Scotia received an allow-  
(14)  
ance of \$1,545,000.

In January of 1877, the year in which the Nova Scotia special subsidy of \$83,000 was to expire, the Provincial Secretary, Hon P. C. Hill, submitted a plea to the Dominion government for the continuance of the grant. He stated that the situation in Nova Scotia was analogous to that which had existed in 1869 when the grant was originally made, particularly since provincial revenues had not increased but had ac-  
(15)  
tually diminished. The Dominion government referred this appeal to its Finance Minister the Hon. Richard J. Cartwright, who discovered that over one-half of Nova Scotia expenditures were for roads and education, services met in the other provinces by local direct taxation. He concluded that Nova Scotia could pay its own way if it so desired, and therefore he recommended:

"In view of the enormous engagements to which the Dominion of Canada is now committed and in view of the inexpediency of disturbing the present financial arrangements of the several provinces, the undersigned feels it his duty to recommend, in the strongest manner possible, that no addition be made to the fixed annual charges now existing by a continuance of the sum asked for." (16)

In pursuance of this recommendation, the request of Nova Scotia was refused, and the special grant expired July 1, 1877.

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(13) Journal of the House of Assembly of Nova Scotia, 1874, pp. 16-17; Dominion Sessional Papers, 1885, Vol. 10, No. 34, pp. 102-3.

(14) 36 Victoria, c. 30.

(15) Journal of the House of Assembly of Nova Scotia, 1877, Appendix No. 9, pp. 1-4

(16) Ibid., p. 8





This refusal did not deter Nova Scotia, for in January, 1879, the Provincial Secretary, the Hon. S.H. Holmes, submitted a memorial to the Dominion government in which various legislative resolutions were reproduced. He wrote that despite the greatest economy revenues were insufficient, particularly as the two major sources of revenue, royalties on coal and the yield of Crown lands, had greatly decreased in the past few years. There had been deficits each year since 1874; that of 1877 was \$26,000, while that of 1878 - the year after the cessation of the special grant - was \$118,000. This fact, he said, "proves in a more convincing manner than any words can, that the allowance of \$83,000 granted as additional subsidy to Nova Scotia for ten years should not have been withdrawn last year". In answer to the previous statement of the Dominion Finance Minister, that Nova Scotia should pay for roads and education by local taxation, the Hon. Mr. Holmes claimed that Nova Scotia raised more revenue per capita for education than Ontario. Nova Scotia also made a bid for some portion of the Halifax Award. Since Nova Scotia was a peninsula and possessed about one-half of the entire fishing industry of Canada, the Provincial Secretary urged that the greater portion of this award should be assigned to Nova Scotia.

Two memoranda dated December 29, 1879, and January 7, 1880, were prepared by the Dominion in reference to these requests of Nova Scotia. In essence they pointed out that an accurate estimate of the situation was impossible because the Nova Scotia public accounts had been kept poorly, and that

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(17) Dominion Sessional Papers, 1885, Vol. 10, No. 34, p.115.

(18) Ibid., pp. 107-122, and 126-129. (One minor contention was settled in 1878. The Dominion had made a refund of \$59,000 for railway stores and supplies taken over at Confederation. Nova Scotia's request for interest on this sum was allowed in 1879, and \$33,000 was paid over. In addition, several items outstanding against Nova Scotia since 1867 were charged against the debt allowance of Nova Scotia.)



there was no doubt but that if the provincial revenues were "husbanded with greater frugality" the apparent deficit would in time disappear. The Dominion rejected the plea for re-adjustment upon interesting grounds:

"But the question is not, after all, whether Nova Scotia gets more or less than its sister Provinces. It is an undoubted fact that with all said and done; the Province will be barely able to pay its way,.... The question is one of granting better terms and if the principle is conceded in the case of Nova Scotia it will have to be conceded all around....." (19)

The Dominion realized that although Nova Scotia needed financial aid, any alteration of terms with one province would create the basis for never-ceasing demands on the part of all the provinces. Evidently the Dominion intended to consider the terms, as revised in 1869, final, no matter what situation might exist in any province. In reference to the claim for a portion of the Halifax Award, the Dominion government pointed out that fisheries fell within the Dominion jurisdiction and the Award belonged to the Dominion as a whole and not to the individual provinces.

During the years 1882-1886, the Province of Nova Scotia deluged the Dominion with memoranda, memorials and letters, which beseeched the Dominion for an increased subsidy to relieve the financial distress of the Province. (20) An epitome of the various presentations with their arguments and claims may be appropriate at this point:

"Nova Scotia contributed more in revenue to the federal government than the other provinces; an error had been made in 1869 for the Province should have been credited with an increased debt allowance of \$1,188,756 instead of \$1,186,756, (this difference plus interest should be added to the credit of Nova Scotia); the Dominion should relieve

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(19) Ibid, p. 139

(20) Ibid., No.34a, pp.1-16; Ibid, 1886, Vol.13, No.786 pp.1-41.





the coal producers of the duties paid to the Province; the special allowance of 1867-77 should be restored; the Province had reduced expenses to the lowest point, but deficits constantly occurred; and a point had been reached where either a Dominion grant had to be secured or more direct taxation had to be imposed, the latter being deemed inexpedient because of the financial condition of the Province. The Government of Nova Scotia complained that the promise of the Hon. John A. Macdonald in 1868 that the Dominion would do all in its power to correct any injustice had not been fulfilled, for prior to federation Nova Scotia had been in the best financial condition while each of the other provinces barely paid its way, whereas in 1884 the situation was reversed. The Province argued that Dominion taxation since Confederation had increased by at least 51% and that the provincial subsidy should have been increased in the same ratio. This argument was of particular significance; inasmuch as the provincial revenues in 1867 were surrendered to the Dominion in return for an annual subsidy, Nova Scotia expected that the same ratio between the subsidy and the Dominion revenue would be continued. However, this claim carried no weight with the Dominion. The Province asserted that it had been treated unjustly when its claim to part of the Halifax Award had been denied.

One of the communications recapitulated the situation in the following words:

"That an additional revenue had become an absolute necessity to this Province, and the only available means of securing it is through the Federal Government, as our people will not submit to direct taxation for local purposes, while they believe that if justice were done, Nova Scotia would have ample means to provide for her local works."(21)

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(21) Journal of the House of Nova Scotia, 1886, Appendix No. 12 p. 5.



Although the Dominion refused to take any action which would provide Nova Scotia with an extra subsidy, the Province did benefit from the revised debt allowances made by the Dominion in 1884. At this time, the Dominion government reverted the increases of 1873 to 1867 and added the interest which would have been paid during that period upon these sums. Nova Scotia obtained an increased debt allowance of \$800,000 which yielded<sup>(22)</sup> an extra annual sum of \$40,000.

After consistent refusal on the part of the Dominion to make any additional grants to Nova Scotia, the Provincial Secretary, the Hon. W. S. Fielding, wrote in July 1885 that if some extra aid were not soon forthcoming serious consequences would occur. During the legislative session of 1884 a resolution had been introduced in the Nova Scotia Assembly to the effect that if the Dominion denied a readjustment of financial terms "it will then become the imperative duty of the government of Nova Scotia to demand a repeal of the British North America Act, 1867, in so far as it relates to the Province of Nova Scotia, carrying the appeal for justice, or separation, if necessary, to the British government for adjudication."<sup>(23)</sup> The government of Nova Scotia did not wish to seek repeal until it had exhausted all efforts to obtain relief from the Dominion, and therefore secured the withdrawal of this resolution pending further negotiations with the Dominion. The Provincial Secretary warned the Dominion that unless some aid were soon granted,<sup>(24)</sup> secession from the union would occur.

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(22) 47 Victoria, c.4.

(23) Journal of the House of Nova Scotia, 1886, Appendix No.12,p.7.

(24) Ibid., pp. 1-14; Dominion Sessional Papers, 1886, Vol.13, No. 76, pp. 7-14.





After an examination of all these protests and claims, the Dominion government replied in the following vein:

There was no justice in the complaint of inequality, for Nova Scotia had received subsidy increases from time to time which had maintained the Province on an equal footing with the other provinces; Nova Scotia contributed less proportionately to the federal revenue than any other province with the exception of Prince Edward Island; the Province had only itself to blame for its small subsidy, for if Nova Scotia had not made withdrawals from its debt allowance it would receive \$163,000 annually instead of only \$50,000; and Nova Scotia had received and was receiving more than its share of the Halifax Award in the form of bounties to fishermen. The error of \$2,000 made in 1869 when the debt allowance had been increased was recognized and rectified by a Dominion Act in 1885; interest of \$3,400 on this sum was also awarded. The Dominion could find no reason to justify further allowance, for if Nova Scotia had not indulged in extra expenditures, it would have had sufficient sums for local purposes and would have been <sup>(25)</sup> in as strong a financial position as any other province. The Dominion Deputy Finance Minister, J. M. Courtney, emphasized the crux of the problem in his report to the Dominion government:

"I beg to point out that throughout the whole of the Documents submitted, whether in the original communication from the Provincial Secretary, or whether in the separate addresses from both branches of the Legislature, or whether in the subsequent correspondence, is this inadmissible argument that because the province is financially embarrassed the Dominion must come forward and rescue it from the unfortunate position." (26)

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(25) Ibid., pp. 8-14.

(26) Ibid., p. 9.



Although discouraged by these refusals, the Province submitted several more resolutions to the Dominion in 1886. The Provincial government reviewed the whole situation and threatened to withdraw, along with the other Maritime Provinces, from the federation. If the latter action were found to be impossible. Nova Scotia asserted it would ask the Imperial Government to reinstate it as a Colony of Great Britain.<sup>(27)</sup> When the Dominion made no effort to satisfy Nova Scotia, the government of the Province, under the Hon. W.S. Fielding, secured legislative approval of secession resolutions which provided for withdrawal from the union if supported by the people at the proposed election. The results of the election held in June, 1886, overwhelmingly indicated approval of secession. However, action was postponed and in a subsequent election for the Dominion Parliament held in February, 1887, the opponents of secession were returned to power. Undoubtedly, the government had hoped that a threat to secede would force the Dominion to grant aid, but the strategy had been unsuccessful.

The debacle of the secession movement stilled the efforts of Nova Scotia to obtain special aid from the Dominion. However, the government of the Province took an active part in the first Provincial Conference which convened in Quebec on October 20, 1887, and which was summoned by the Premier of Quebec to consider the subject of provincial autonomy and federal subsidies. Representatives from Nova Scotia participated in the sessions only after there had been included in the minutes a statement that the rights of the Nova Scotia Legislature, government or people to take any action necessary to fulfil a resolution recently passed in Nova Scotia for withdrawal from the Dominion were in no manner prejudiced through association with the Conference. Nova Scotia gave full support

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(27) Journal of the House of Nova Scotia, 1886, Appendix No. 12a. pp. 1-5.





to a series of resolutions which urged the Dominion to treble the allowances for government and legislatures, and to revise the per capita subsidy so that 80 cents would be paid on a population up to 2,500,000 and 60 cents on any population in excess of that figure. These resolutions were not accepted by the Dominion.

During the period 1887 to 1901, Nova Scotia dropped all claims upon the Dominion except one which concerned provincial subsidies paid to private contractors for the construction of the Eastern Extension Railway which had been sold to the Dominion in 1884.<sup>(28)</sup> After persistent entreaties for consideration, the Dominion submitted the claim to arbitration. The Board brought in an award not only for the \$612,000 paid in subsidies, but also for \$60,000 to cover a payment to contractors for the settlement of a suit against the Province. This was a welcome award, but, of course, it added nothing to the annual income of the Province. However, the revenues of the Province expanded extensively in the late 90's and early 1900's, due in a large measure to the development of the coal industry.

Nova Scotia received further aid through the general revision of the subsidy system in 1907. A second Provincial Conference had been called in 1902; this body approved the resolutions of the earlier assembly. Although the Dominion government recognized that the provinces were badly in need of increased subsidies nothing was done until after the creation in 1905 of Alberta and Saskatchewan with subsidy terms above the earlier level. Then a Dominion-Provincial Conference was convened by the Dominion government. The resolutions of the Conferences of 1887 and 1902 were reaffirmed and the Dominion secured an amendment of the British North America Act to put these provisions into effect. A finality clause was included in the schedule of

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(28) In 1888, Nova Scotia obtained a refund of \$72,000 from the Dominion for expenditures upon piers and wharves which were declared to fall within Dominion jurisdiction by *Holman v. Green*, 6 S.C.R. 707 (1882).



the bill with the intent that no future subsidy revisions would be made. The Nova Scotia subsidy was increased by 36.4%; this included \$130,000 for government and the legislature and \$68,000 on account of its population which had reached the (29) 400,000 limit before 1881.

Another Provincial Conference was held in 1913. Nova Scotia was anxious to secure an increased subsidy and supported the proposal that the Dominion set aside 10% of the annual customs and excise collections for distribution among the provinces. No immediate action by the Dominion resulted and the costs of the World War soon made increased subsidies an impossibility.

Although Nova Scotia did not secure any subsidy revisions during the period 1908 to 1927, it obtained the benefits of the conditional subsidies established by the Dominion to aid the development of specific provincial services. The first of these subsidies - for agricultural instruction - began in 1912; then followed: employment offices, 1918; highways, 1919; technical education, 1919; venereal diseases, 1919; and old (30) age pensions, 1927. All of these subsidies, except that for agricultural instruction, required expenditures by Nova Scotia upon these services - in general, it had to provide a sum equal to the amount received from the Dominion. The Table on the following page indicates the sums received by Nova Scotia, the years aid was accepted or available, and the total payment under each service up to March 31, 1937.

The economic difficulties which impoverished the Maritime Provinces after the World War gave rise to another movement for "Better Terms". This culminated in the appointment by the Dominion of the Duncan Commission in 1926 to inquire into

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(29) 6-7 Edward 7, c.11.

(30) An Act of 1931 for vocational education never became operative.





the complaints of the provinces. The government of Nova Scotia took a leading part in the presentation of arguments before this body. A brief resume of the important grievances follows:

the customs and excise duties surrendered to the Dominion in 1867 had yielded the federal government a constantly increasing revenue, while no general revision of the subsidy had been made until 1907 and even that adjustment had not restored the relationship between subsidies and Dominion revenue which had existed in 1867. Since 1907, this relationship had grown less satisfactory to the provinces because Dominion revenues continued to grow. In contrast to this growth, the subsidies had decreased in actual value due to the falling value of money and the increased cost of government. The growth of population in the Maritimes had been very slight, and since actual provincial expenditures were not proportionate to population, the subsidies were much too small. The efforts to take advantage of Dominion subventions which required that the provinces match Dominion contributions had resulted in expenditures beyond the means of the Maritime Provinces. Provincial revenue from taxation had been very limited because there were no large businesses to tax and because the Dominion had invaded the field of direct taxation granted to the provinces under the terms of the British North America Act, 1867. Shipping by way of the eastern ports had greatly decreased because the railway freight costs from the industrial interior of Canada were so high that it was advantageous for manufacturers to ship all the way by water, or by rail through the United States. The debt allowances to the Prairie Provinces had been given gratuitously, whereas those of the Maritime Provinces had been in exchange for assets turned over to the Dominion. The public land about to be surrendered to the western



CONDITIONAL SUBSIDY PAYMENTS TO NOVA SCOTIA

Year	Agricultural Instruction Act	Coordination of Employment Offices	Canada Highways Act	Technical Education Act	Eradication of Venereal Diseases	Old Age Pensions
1912-13	\$ 34,288					
1913-14	54,288					
1914-15	61,144					
1915-16	68,002					
1916-17	74,859					
1917-18	81,717					
1918-19	81,717					
1919-20	81,717	(a)			5,287	
1920-21	81,717	3,100		24,193	10,574	
1921-22	81,717	7,564	486,413	32,758	10,574	
1922-23	81,717	8,275	811,069	33,165	10,574	
1923-24	61,784	7,422	97,348	35,502	10,744	
1924-25		4,300	61,602	34,624	8,058	
1925-26		3,932	12,289	31,000	6,864	
1926-27		3,956		31,495	6,864	
1927-28		3,902		29,225	5,790	
1928-29		3,845		47,084	5,790	
1929-30		3,931		21,525	5,790	
1930-31		3,433		73,670	5,790	
1931-32		3,553		48,700	5,790	
1932-33		3,834		50,629		69,271
1933-34		4,110		47,692		1,479,899
1934-35		3,498		39,616		1,661,102
1935-36		4,040		48,766		1,764,915
1936-37		3,836		32,471		
TOTAL	\$844,666	\$76,532 (a)	\$1,468,720	\$662,113	\$98,490	\$4,975,187

(a) Does not include \$22,248 distributed to municipalities.





provinces and the land already granted to Ontario and Quebec had been purchased with Dominion revenue contributed in part by the Maritimes, but no land or compensation had been awarded the Maritimes. A similar objection was raised in reference to the water power rights along the St. Lawrence River, which, although developed by the Dominion, had been turned over to Ontario and Quebec. The major argument was based upon the financial and economic condition of the Maritimes - they had not prospered under Confederation as had the other provinces. Therefore, the Dominion was liable (31) for aid which would bring them at least balanced budgets.

After protracted study, the Commission decided that the financial troubles of the Maritimes were due to their geographical isolation and the trend of centralization in industry, and not to the fault of Confederation or of the Dominion. Nevertheless, special aid was warranted to provide these provinces with a measure of prosperity. The Board indicated that the claims concerning the public land and debt allowances were real grievances. The Commission recommended the appointment of a body to revise the subsidies of the Maritimes and, in the meantime, it proposed interim payments to the three provinces - for Nova Scotia, \$875,000. This sum was paid annually by the Dominion (32) from 1927 to 1935.

No action for a study of the Maritime subsidies occurred until September, 1934 when the Dominion appointed the White Commission, composed of the Hon. Sir Thomas White, Mr. Justice Mathieson, and Edward Walter Nesbitt. Two months

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(31) Report of the Royal Commission on Maritime Claims, Ottawa, 1927, pp. 9-19.

(32) In addition, the Commission suggested a 20% reduction of freight rate to the Maritimes; this revision was implemented by the Dominion Parliament in 1927. There were other recommendations which were not concerned with the subsidy relationship.



earlier, Nova Scotia had instituted an inquiry into its economic condition (the Jones Commission). Inasmuch as the general claims of the Maritimes were similar to those presented in 1926, it is unnecessary to examine them. However, attention should be called to the fact that the provinces relied heavily upon an appeal based upon fiscal need.

The White Commission acknowledged that the Maritimes were in an unusual situation because of their smaller wealth and area, stationary population, heavy per capita over-head expenses, isolated economic position, and lack of benefit from Confederation. The Report rejected the plea of fiscal need as a basic claim though Mr. Justice Mathieson dissented from this conclusion. The Board did not accept the arguments based upon debt allowances and non-addition of territory as outright instances of inequality, but these claims were given consideration in the final recommendation. Extra subsidies were proposed for the Maritimes, that for Nova Scotia being \$1,300,000. Mr. Justice Mathieson held that the proposed subsidies were too small to provide permanent relief. (33) Although the additional annual subsidy was accepted, Nova Scotia is not convinced that its claims have received adequate compensation. Almost all of the complaints remain active issues.

There remains one other subsidy relationship between the Dominion and Nova Scotia. During the depression of the 1920's, the Dominion undertook to bear a portion of municipal relief costs. Municipalities in Nova Scotia received the following payments directly from the Dominion:

1920-21	\$ 831
1921-22	1,955
1922-23	1,235
1926-27	<u>6,720</u>
Total	<u>\$10,741</u>

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(33) Report of the Royal Commission on the Financial Arrangements between the Dominion and the Maritime Provinces, Ottawa, 1935, pp.2-14.





The depression which began in 1929 brought to the fore again the problem of unemployment relief. The Dominion came to the aid of municipalities by establishing relief grants, this time making all payments through the provinces. Thus, a new subsidy relationship was established between the Dominion and the provinces. Nova Scotia obtained the following relief grants:

1930-31	\$	62,000
1931-32		904,000
1932-33		1,381,000
1933-34		1,072,000
1934-35		802,000
1935-36		1,345,000
1936-37		1,139,000
Total	\$	<u>6,705,000</u>

Under the present financial terms, Nova Scotia receives the following subsidies:

Population subsidy	\$	410,000 (34)
Interest on debt		
subsidy		53,000
Grant for government		190,000
White Award		<u>1,300,000</u>
Total		<u>1,953,000</u>

The subsidy payments obtained from the Dominion by Nova Scotia to March 31, 1937, aggregate \$46,411,000; this sum does not include conditional subsidies of \$8,126,000 and relief payments of \$6,705,000. The grand total of all subsidies as of that date is \$61,242,000.

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(34) The population subsidy increased as follows:

1881	\$46,000
1891	10,000
1907	48,000
1911	26,000
1921	25,000
1931	9,000 (reduction).

(35) This total does not include \$22,000 for payments made by the Dominion to municipalities for the co-ordination of labor offices.

(36) This total does not include \$11,000 paid by the Dominion to municipalities during 1920-23 and 1926-7.



Chapter III      The Subsidy Relationship between  
New Brunswick and the Dominion.

When New Brunswick joined with Nova Scotia, Upper and Lower Canada to establish the Dominion of Canada, it had to be assigned a definite revenue so that it might be enabled to meet its governmental expenditures. Almost the entire revenue of the Province was to be obtained from the Dominion - through the regular subsidies established for all the provinces, plus an extra grant. New Brunswick was assigned the following:

1. A population subsidy of \$202,000 calculated at 80 cents per head on the population of 1861 (252,000) with revision every ten years until the population reached 400,000;
2. A debt allowance of \$7,000,000 upon which interest would be paid after deduction of the provincial debt assumed by the Dominion;
3. A grant for government of \$50,000;
4. A special subsidy of \$63,000 for a period of ten years, during which taxation was to be developed to replace the extra allowance or expenditures curtailed.

The Dominion payment to New Brunswick during the first year of Confederation totalled \$315,000.<sup>(1)</sup>

When Nova Scotia was awarded a special subsidy for ten years in 1869, the people of New Brunswick became dissatisfied with their terms. In 1871, the government of New Brunswick dispatched a delegation to Ottawa for the presentation of a memorandum containing claims for better terms. It was argued that if Nova Scotia required an additional

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(1) This sum did not include any interest on the debt allowance because the balance in favour of the Province had not been calculated at that date.





subsidy one year after Confederation, not only should New Brunswick receive further aid, but also the special subsidy of \$63,000 should not be discontinued at the end of the ten-year period. If Nova Scotia obtained \$83,000 as a special grant, New Brunswick should receive more than \$63,000, for the provinces were to be in a position of parity within the Confederation. There was no need for Nova Scotia having an allowance for government of \$10,000 more per year than New Brunswick, for the former was smaller and had the same type of administration. An increased subsidy was imperative because New Brunswick was unable to meet necessary local expenditures from its revenue. If New Brunswick had remained outside the Union and raised its tariff to the rates levied by the Dominion, the revenue yielded would be more than enough to meet all expenses. Upon this argument alone, a larger share of the Dominion customs receipts was demanded. The debt allowance of New Brunswick was unjust because it was based upon the population of the Province, whereas New Brunswick had relinquished to the Dominion public works on which it had spent large sums and for which it received no credit. In addition, the population subsidy was unfair to New Brunswick because Ontario and Quebec obtained an allowance based upon populations of over 1,000,000, whereas the largest population upon which New Brunswick could receive a subsidy was limited by the British North America Act to 400,000 persons.

The Memorandum concluded with the following assertion:

"They humbly submit that Ontario has attained under Confederation a revenue unequalled by that on any previous year in her history, and is accumulating millions of dollars for local development and interest improvement; that Quebec is yearly and substantially harvesting the ripe fruits of the general Union; that Nova Scotia has received terms far in advance of and more advantageous than those conceded to her by the Act of Union, and accepted by her Legislature when the compact was sealed; that Manitoba has secured a local constitution and Government property less burdensome and more remunerative than New Brunswick has received; that Newfoundland and Prince Edward Island will occupy a similar state with Manitoba in this respect, or have none of the agreement; while the covenant entered into with British Columbia, financially and constitutionally, is such as the most sanguine New Brunswicker could ever have expected or demanded for his Province, New Brunswick stands conspicuously and severely alone....."(2)



Although the Dominion acknowledged the receipt of this petition, no reply was ever given to the presentations and New Brunswick received no additional Dominion aid.

In 1872, New Brunswick sent another delegation to press a demand upon the Dominion for an enlarged annual grant. In addition to the aforementioned grievances, the Province claimed damage from the lax and inefficient administration of the Dominion immigration officers who permitted diseased immigrants to intermingle with the populace and spread illness. New Brunswick pointed out that the public works turned over to the Dominion yielded larger and larger sums <sup>(3)</sup> while the provincial subsidy continued at the same rate. The Province requested that the Dominion take over the administration of public health, railways and penitentiaries; that the debt allowance be placed at \$8,000,000 with interest at 6% from July, 1867; that the 400,000 limit of the per capita subsidy be removed; that the special grant of \$63,000 be made permanent, and that the subsidy <sup>(4)</sup> for government be placed on a parity with that of Nova Scotia.

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(3) The most important asset of New Brunswick turned over to the Dominion at Confederation was the "European and North American Railway" on which advances amounting to \$4,761,979.30 had been made by the provincial treasurer as of June 30th, 1867. Operation figures of this railway for eight years prior to Confederation show operating surpluses as follows: (year ended October 31 in each case): 1859, \$23,181; 1860, \$41,885; 1861, \$36,443; 1862, \$20,006; 1863, \$41,738; 1864, \$41,427; 1865, \$38,502; 1866, \$51,760; 1867 (8 mos. to June 30) \$18,691. In only one year (1866) did this railway earn as much as one per cent of the capital employed. When operating surplus was applied against interest at 6 per cent (not compounded on deficits) the annual deficit in this period ranged from \$102,841 (in 1859) to \$253,361 (in 1862).

(4) Dominion Sessional Papers, 1885. Vol. 10, No. 34, pp. 152-170





As in the previous year, the Dominion took no action to fulfil these demands.

Although no definite action was taken upon these claims by the Dominion, the Province was awarded an extra subsidy in 1873. The portions of the Washington Treaty (1873) which applied to the United States and Canada made provision for the abolition of duties upon the export of lumber. New Brunswick had been entitled under the Act of 1867 to continue the export duties on lumber it then levied.<sup>(5)</sup> Therefore, when this duty was eliminated, the Dominion deemed it equitable to compensate the Province for the loss of revenue. At the same time, the Dominion took advantage of this opportunity to provide New Brunswick with badly needed extra income. Accordingly, an annual subsidy of \$150,000 was instituted in 1873, the loss in revenue from the lumber duties being approximated \$70,000.<sup>(6)</sup> In the same year, New Brunswick received an additional debt allowance of \$1,180,000. This increase resulted from the assumption of the excess debt of Ontario and Quebec by the Dominion when all provincial allowances were raised proportionately.<sup>(7)</sup>

Despite these additional grants, New Brunswick continued to press various claims upon the Dominion during the years immediately after 1873, particularly for an additional subsidy and the continuance of the special grant of \$63,000. However, the Dominion remained immovable. In 1877, when the latter was due to expire the Province sent a delegation to Ottawa to urge that it be continued. The delegates asserted that New Brunswick was in a worse financial condition than it had been in 1867. The Province made the request for an extra subsidy because it believed that the Dominion Parliament had recognized the justice of special aid for the smaller provinces through its concessions to Manitoba, British Columbia, Prince Edward Island

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(5) B. N. A. Act, 1867, Sec. 124.

(6) 36 Victoria, c. 41.

(7) 36 Victoria, c. 30.



and Nova Scotia (vide the sections on each of these provinces). The Dominion Finance Minister, the Hon. Richard J. Cartwright, submitted a report upon the New Brunswick subsidy to the Dominion government on February 12, 1877. He stated that to increase the subsidy of New Brunswick would compel the inhabitants of the Province to pay more to the Dominion than they would receive in the form of a subsidy and that it would be less costly for the people of the Province to raise the amount needed by direct taxation. He revealed that New Brunswick spent \$365,000 of its \$500,000 annual expenditure upon roads and education, services which Ontario and Quebec supported entirely by local taxation. He concluded:

"In view of the enormous engagements to which the Dominion of Canada is now committed, and in view of the inexpediency of destroying the present financial arrangements of the several Provinces, the undersigned feels it his duty to recommend in the strongest manner possible, that no addition be made to the fixed annual (8) charges now existing by a continuance of the sums asked for."

On the following day, the Dominion government adopted this report and the special subsidy expired in July of that year. It is of interest to note that the special grants to both Nova Scotia and New Brunswick were terminated for the same reason: the Dominion did not desire to upset the existing financial arrangements.

When the Dominion received its share of the Halifax Award in 1878, New Brunswick (with Nova Scotia) made a request for a portion of that sum because of its interest in the fishing coasts to which Americans were admitted. The Dominion refused (9) to acknowledge the claim or distribute the award.

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(8) Dominion Sessional Papers, 1885, Vol. 10, No. 34, p. 245.

(9) Ibid., 1879, Vol. 9, No. 73, p. 2.





In the same year, New Brunswick began to press a new claim upon the Dominion. Shortly after Confederation the Province had sold to the Intercolonial Railway the Eastern Extension Railway which it had built at a cost of \$1,044,000 including subsidies of \$400,000.<sup>(10)</sup> The sale price of the Intercolonial was \$24,000 a mile (the proposed cost per mile of the Intercolonial) or a total of \$894,000. New Brunswick, therefore, had received \$150,000 less than it had spent and it claimed that the Dominion should pay this sum. After prolonged negotiations, the Dominion agreed to reimburse the Province and the \$150,000 was turned over in 1884.

In 1884, the Dominion government reverted to 1867 the increase in provincial debt allowances made in 1873. New Brunswick obtained a further allowance of \$605,000, which provided an additional annual sum of over \$30,000.<sup>(11)</sup>

In 1885, New Brunswick raised a further claim concerning the Eastern Extension Railway. The Province argued that since in 1884 the provincial debt allowances were reverted to 1867 with interest, the \$150,000, which should have been added to its debt allowance in 1869, at the time the sale of the Eastern Extension occurred, should bear interest at 5% from 1869 with interest upon this interest. The claim was ignored for many years, until finally, in 1900, it was submitted by the Dominion to arbitration; the full demand of the Province was approved. Therefore, the Dominion paid New Brunswick \$276,000 as interest arrears on the \$150,000 and as interest upon unpaid interest. This payment did not add to the annual subsidy of the Province.<sup>(12)</sup>

New Brunswick participated in the Provincial Conferences of 1887 and 1902 which approved resolutions for increased provincial subsidies. The Province also sent representatives to the

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(10) The Eastern Extension was not a necessary part of the Intercolonial for it was some miles longer than the surveyed route through New Brunswick. In fact, Sanford Fleming, the chief engineer in charge of construction objected to the purchase of the Eastern Extension but was overruled by the Dominion Railways Commission who made the purchase and set the sale price.

(11) 47 Victoria, c. 4.

(12) During the period 1885-1901, New Brunswick pressed other claims upon the Dominion. Nearly all were repetitions of former presentations and none were accepted.



Conference of 1906 which prepared the way for the subsidy revisions of 1907; however, New Brunswick made no particular claims at any of these assemblies. The Act of 1907 placed the subsidy for government upon a population basis and increased the limit of the population subsidy. Only the former was of immediate benefit to New Brunswick, for its population subsidy had not reached the original limit. The subsidy for government was increased from \$50,000 to \$180,000; this addition made an absolute increase in the total subsidy receivable by New Brunswick of 30 per cent. <sup>(13)</sup> New Brunswick also attended the Provincial Conference of 1913 which proposed further subsidy increases in the form of a share of the customs and excise collections. As a result of the Duncan Commission's recommendation interim special grants of \$600,000 annually were paid to New Brunswick from 1927 to 1935. The White Commission in 1934 recommended that the sum should be raised to \$900,000 and this sum has been voted annually since, beginning in the Dominion fiscal year 1935-36.

The amounts which New Brunswick has received in respect to conditional subsidies since their institution in 1912 are shown in the accompanying table.

During various years in the 1920's, the Dominion bore a share of municipal relief costs. Municipalities in New Brunswick obtained \$5,000 in 1922-23. After the beginning of the depression of 1929, unemployment relief became a serious problem. The Dominion again undertook to aid municipal costs, but payments were made directly to the provinces for distribution rather than to the municipalities as during the previous period. Under this system, New Brunswick has received the following relief grants from the Dominion:

1930-31	\$250,000
1931-32	745,000
1932-33	404,000
1933-34	606,000
1934-35	442,000
1935-36	1,126,000
1936-37	910,000
Total	<u>4,483,000</u>

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(13) 6-7 Edward VII, c. 11.





CONDITIONAL SUBSIDY PAYMENTS TO NEW BRUNSWICK

-115-

Year	Agricultural Instruction Act	Coordination of Employment Offices	Canada Highways Act	Technical Education Act	Eradication of Venereal Diseases	Old Age Pensions
1912-13	\$ 24,510					
1913-14	44,510					
1914-15	49,407					
1915-16	54,308					
1916-17	59,210					
1917-18	64,111					
1918-19	64,111					
1919-20	64,111	(a)		\$ 3,397	\$ 3,759	
1920-21	64,111	(a)		10,409		
1921-22	64,111	(a)	\$ 438,304	22,161	7,518	
1922-23	64,111	(a)	371,973	17,476	7,518	
1923-24	50,939	\$ 4,445(a)	297,203	20,382	6,710	
1924-25		4,082	56,366	43,041	5,967	
1925-26		4,144		93,875	5,083	
1926-27		4,103		76,209	5,083	
1927-28		4,055		70,107	4,287	
1928-29		3,993		48,638	4,287	
1929-30		3,985		51,951	4,287	
1930-31		3,446		50,026	4,287	
1931-32		3,547		4,792	4,287	
1932-33		3,647				
1933-34		3,754				
1934-35		4,533				
1935-36		4,412				
1936-37		3,965				
						\$868,308
TOTAL	\$667,549	\$56,110 (b)	\$1,163,845	\$512,461	\$63,073	\$868,308

(a) Does not include payments to municipalities of the following sums:  
1920-21, \$30,524; 1921-22, \$3,452; 1922-23, \$6,808; 1923-24, \$1,868;  
a total of \$42,653.

(b) Does not include a total of  
\$42,653 paid to municipalities.



As of March 31, 1937, New Brunswick secures the following annual subsidies:

Population subsidy	\$ 327,000.	(14)
Interest on debt allowance	26,000	
Grant for government	190,000	(15)
Lumber duty subsidy	150,000	
White award	900,000	

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Total	1,593,000
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In all, New Brunswick had obtained (at that date) \$52,339,000 from the Dominion; this represents \$44,525,000 from subsidies, (16) (17) \$3,331,000 from conditional grants, and \$4,483,000 from relief contributions.

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(14) Since 1867, the population subsidy increased as follows:  
1871, \$27,000; 1881, \$29,000; 1891, \$24; 1901, \$8,000;  
1910, \$17,000; 1921, \$29,000 and 1931, \$16,000.

(15) The grant for government was raised automatically in 1931 from \$180,000 to \$190,000.

(16) This total does not include \$43,000 paid by the Dominion to municipalities for employment offices.

(17) This total does not include \$5,000 paid by the Dominion to municipalities for unemployment relief in 1922-23.





Chapter IV. The Subsidy Relationship between Quebec  
and the Dominion

The British North America Act made the following financial provisions for Quebec:

1. A fixed population subsidy of \$889,000 determined at the rate of 80 cents per head on the population of 1861 (1,110,600).
2. A debt allowance of \$62,500,000 to be shared by Ontario and Quebec - since the debt of the old Province of Canada was more than that amount, these provinces would pay interest at 5% to the Dominion on the debt assumed by the Dominion in excess of \$62,500,000. The proportion of excess interest to be borne by each province was to be determined after Confederation by a Board of three arbitrators.
3. A grant for government of \$70,000.

The first annual subsidy payment obtained by Quebec was \$913,000.

The amount of excess debt to be adjudicated was finally referred to the arbitrators, Charles D. Day of Quebec, D. Macpherson of Ontario, and J. D. Gray, as Dominion representative, in July 1870. The Board had hardly begun to function when Quebec protested that Gray, the Dominion appointee, who was supposed to be neither a resident of Ontario or Quebec, was disqualified because he had lived for over a year in Ontario. Shortly thereafter, Day resigned as the Quebec nominee because he was convinced that the basis of division proposed by the other arbitrators would be unjust to Quebec. He explained his resignation in these words:

"I do so with regret but I am satisfied from the broad and unconceivable differences of opinion which exist between my colleagues and myself on points of essential importance, that I cannot hope to be of further service in the business of arbitration. The course which they propose appears to me necessarily to lead to great injustice, and is so entirely contrary to my conviction of what the public interest requires that I cannot concur or consent to take part in it." (1)

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(1) Dominion Sessional Papers, 1871, Vol. 5, No. 21, p.1.



Thereupon, the government of Quebec asked that the Board suspend hearing until another representative be appointed. However, the Dominion took no action to fulfil this request.

The two remaining commissioners rendered an award in September, 1870. They determined that the surplus debt should be divided in the ratio in which the original debt had been incurred for the benefit of each province - 52.8% for Ontario and 47.2% for Quebec: inasmuch as the surplus debt was \$10,400,000, Ontario's share was \$5,500,000 and Quebec's \$4,900,000. In its argument before the arbitrators, Quebec had urged that the debt incurred during the period in which the provinces were united (1841-67) should be divided equally, whereas the previous debt of each province should revert to that province. Upon this basis, Ontario would have assumed \$8,200,000 of the excess and Quebec \$2,200,000, but the Board refused to accept this proposal.

As soon as the award was announced, the Quebec legislature resolved that the determination was "unjust, illegal, null and void" because the decision had been made by only two arbitrators, one of whom was disqualified.<sup>(2)</sup> Ontario expressed satisfaction with the proposed distribution. With these two provinces at cross-purposes, the Dominion government was placed in a delicate situation; an opinion as to the possibilities of enforcement was requested from the Minister of Justice, Sir John A. Macdonald. He concluded that the Dominion had no authority to intervene and if either province wished to enforce or resist the award resort should be had to the courts, with a final appeal to the Judicial Committee of the Privy Council. While the legality of the award was pending in the courts, members of the House of Commons from Quebec proposed in 1871 that the

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(2) An important underlying cause of Quebec's opposition can be traced to the fact that the interest payment of \$250,000 could not be raised without additional taxation or reduced expenditures; Ontario at this time had an abundance of revenue.





Dominion assume the excess debt of Ontario and Quebec. Although this proposal was defeated on the ground that the matter was sub judice, a similar motion in 1873 received the support of the government. The Dominion concluded that the easiest escape from the dilemma was to increase the debt allowances of Ontario and Quebec by the amount of the excess debt and thus eliminate the necessity for a division. This action was taken by the Dominion Parliament in 1873, and to preserve equality within the Union, the debt allowances of the other provinces were increased proportionately. (3)

Quebec was in none too strong a financial condition during the early years of Confederation. During the period 1874-82, Quebec borrowed over \$15,000,000 for expenditure upon railways, thereby increasing its interest charges. The condition of the Province grew worse and it finally turned to the Dominion for aid. In March, 1883, the Province submitted a petition to the Dominion government stating that Quebec did not dispute the fact that the terms of 1867 were to have been final, but that these provisions had been based upon the belief that subsidies would be sufficient to meet local expenditures. Experience had shown that a portion of the expenses imposed upon the provinces was uncontrollable and increased as rapidly as the population; among items of this type were the administration of justice and the maintenance of lunatic asylums. Quebec made the humble prayer to the Dominion that "the provisions of the British North America Act, 1867, be amended, so that the annual subsidy paid to this Province by the Dominion government be calculated for each decade, according to the new census". (4) Thus, indirectly, Quebec urged that the restriction upon the population limit be removed. (5) The Dominion took no action upon this proposal.

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(3) 36 Victoria, c. 30.

(4) Dominion Sessional Papers, 1885, Vol. 10, No. 34, p. 579.

(5) Ibid., pp. 557-586; Ibid., 1885, Vol. 12 No. 94, pp. 1. ff; Ibid., 1884, Vol. 11, No. 70, pp. 1 ff.



In addition, the Province raised a protest against the federal railway policy which had subsidized the Canada Central Railway at the rate of \$12,000 a mile for the line between Lake Nipissing and Pembroke on the grounds that it was of national importance. Quebec insisted that the Quebec, Montreal, Ottawa and Occidental Railway, which had been built by Quebec and sold to private companies, was also of national importance and should have been subsidized. At the same time, Quebec insisted that the 1873 settlement of the debt allowances had been incomplete. The revision should have been made as of 1867, and the sum charged on interest to the provinces during the period 1867-1873 should be restored. The Dominion paid no attention to these claims (6) and arguments at the time.

In 1884, a delegation from Quebec visited Ottawa to press these claims upon the Dominion. At first the Dominion government was recalcitrant but eventually it yielded. The Province was allowed a credit of \$2,400,000 for railway subsidies, at the rate of \$12,000 for the 120 miles between Montreal and Ottawa, (7) and \$6,000 a mile for the 159 miles between Montreal and Quebec. At the same time, the Dominion restored the sums deducted from the Ontario and Quebec subsidies for interest on the excess debt from 1867 to 1873; in addition, interest was allowed upon these sums. A total of \$5,400,000 was to be divided between Ontario and Quebec upon the ratio determined in 1870 for the surplus debt, (8) Quebec obtaining an addition of \$2,500,000 to her debt allowance. Although Quebec received interest upon this sum until 1888, controversy arose between the two provinces and the Dominion concerning various claims to be included and the method of calculating the interest due. In 1890, an agreement was concluded between the Dominion and the two provinces for the reference of these questions to three arbitrators. By 1894, these contentions were adjudicated, and

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(6) Ibid., 1885, Vol. 10, No.34, pp.557 ff. and Vol.12, No.94, pp. 1 ff.

(7) 47 Victoria, c. 8.

(8) 47 Victoria, c. 4.





the same interest payments were begun again.

In 1885, the Quebec government repeated its complaint that increases of population were producing greater costs of government without correspondingly increased subsidies. It suggested a revision of the population subsidy every ten years and thereby the abolition of the limit based upon the population of 1861.<sup>(9)</sup> The Dominion, however, refused to take any action on this request.

Thereupon, in 1887, the Hon. Honoré Mercier, the Premier of Quebec, called a conference of provincial representatives to discuss: 1. provincial autonomy, and 2. federal subsidies. An effort was to be made to check the growth of strong central government and to remedy the inadequate and unjust financial arrangements of 1867. Although all the provinces did not participate, the Conference drafted a plan for constitutional and financial reform. The demand for increased subsidies was based upon the argument that the provinces were in need and the Dominion revenues were expanding while subsidy payments lagged. It was suggested that the per capita subsidy be paid at 80 cents per head on a population up to 2,500,000, and thereafter at 60 cents; the grants for government were to vary according to the population as follows:

<u>Population</u>	<u>Grant</u>
Under 150,000	\$ 100,000
From 150,000 to 200,000	150,000
" 200,000 to 400,000	180,000
" 400,000 to 800,000	190,000
" 800,000 to 1,500,000	220,000
Over 1,500,000	240,000

The Conference proposed that these revisions be approved by the Dominion Parliament and be enacted by the Imperial Parliament in a final and unalterable form as an amendment to the British North America Act, 1867. Although these recommendations were

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(9) Dominion Sessional Papers, 1885, Vol. 10, No. 34b. pp. 1 ff.



pressed upon the Dominion government it evinced no interest in the proposal.

Although the revenues of Quebec were adequate in the 1890's, they were not abundant, and the demand for increased subsidies persisted. Premier Parent called another conference in 1902. At this meeting, the resolutions of 1887 were again approved, with the elimination of the finality clause. In addition a subsidy of 20 cents per head was urged to cover the cost of administering justice in the provinces. At first the Dominion government made no response to these proposals but in 1906, after continued agitation by Quebec and after the creation of the provinces of Alberta and Saskatchewan, the Dominion convened a conference to discuss the subsidy relationship. After several days of discussion, the provinces approved the subsidy proposals of the former conferences, with the subsidy for the cost of administering justice eliminated. The Dominion government acquiesced in the recommendation and agreed to put them into effect, the British Parliament being petitioned to amend the British North America Act for this purpose. The alterations made in 1907 raised the Quebec grant for government from \$70,000 to \$240,000 and the per capita subsidy from \$900,000 to \$1,300,000<sup>(10)</sup>. The total subsidy payable to Quebec was increased by 55.2%.

In 1912 by an Act of Parliament, the boundary of Quebec was extended northward adding approximately 178,000 square miles<sup>(11)</sup>. In 1913, Quebec participated in a provincial conference which proposed that the Dominion set aside 10% of the customs and excise duties for the provinces - this sum was to be distributed as follows: government allowances to be increased by 50%,

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(10) 6-7 Edward VII, c. 11.

(11) 2 George V, c. 45.





the remainder to be allotted in the ratio of provincial population. However, these proposals never received serious consideration by the Dominion.

In 1912-1913, the Dominion instituted a new policy when it began the payment of conditional subsidies. The payments to Quebec are shown in the accompanying table.

In the 1920's the Dominion provided a share of municipal relief costs. Various municipalities in Quebec received the following sum directly from the Dominion: 1920-21, \$6,200; 1921-22, \$32,800; and 1922-23, \$38,600 - a total of \$77,600. The depression which began in 1929 intensified the relief problem throughout the Dominion. The federal government again assumed a share of relief costs. However, the system of payment was altered and grants were made directly to the provinces for distribution among the municipalities. Thus, a new subsidy relationship was inaugurated between the provinces and the Dominion. Quebec has obtained the following relief grants:

1930-31	\$ 319,000
1931-32	5,110,000
1932-33	5,849,000
1933-34	4,707,000
1934-35	11,401,000
1935-36	8,067,000
1936-37	<u>10,017,000</u>
	45,470,000

As of 1937, Quebec obtains the following regular subsidy payments from the Dominion:

	(12)
Population subsidy	\$ 2,225,000
Interest on debt allowance	127,000
Grant for government	<u>240,000</u>
Total	<u>2,592,000</u>

Up to March 31, 1937, the total payments to Quebec from the

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(12) After 1907, the population subsidy had automatic increases every ten years as follows: 1911, \$283,000; 1921, \$287,000; and 1931, \$336,000.



Dominion approximated \$163,417,000, consisting of \$104,684,000  
(13)  
from subsidies, \$13,262,000 from conditional subsidies, and  
(14)  
\$45,471,000 from relief grants.

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(13) This total does not include \$59,800 paid by the Dominion to the School of Comparative Medicine and Veterinary Science, Montreal, for agricultural instruction.

(14) This total does not include \$76,600 paid by the Dominion to municipalities for unemployment relief in 1920-23.





CONDITIONAL SUBSIDY PAYMENTS TO QUEBEC

-125-

Year	Agricultural Instruction Act	Coordination of Employment Offices	Canada Highways Act	Technical Education Act	Eradication of Venereal Diseases	Old Age Pensions
1912-13	\$ 139,482					
1913-14	159,482 (a)					
1914-15	187,409 (a)					
1915-16	215,311 (a)					
1916-17	243,212 (a)					
1917-18	271,114 (a)	\$ 8,479				
1918-19	271,114 (a)	13,053		\$ 36,500	\$ 23,694	
1919-20	271,114 (a)	14,679	\$ 113,190	167,887	47,389	
1920-21	271,114 (a)	16,408	427,028	114,651	47,389	
1921-22	271,114 (a)					
1922-23	271,114 (a)	18,315	1,143,880	128,182	47,389	
1923-24	208,339 (a)	17,082	1,117,066	328,682	48,430	
1924-25		13,250	1,306,766	263,400	36,323	
1925-26		15,124	640,491	299,144	30,941	
1926-27		16,208		403,944	30,941	
1927-28		16,798		329,072	26,098	
1928-29		16,412		372,891	26,098	
1929-30		18,335		125,302	26,098	
1930-31		17,936			26,098	
1931-32		21,224			26,098	
1932-33		27,179				
1933-34		30,791				
1934-35		30,909				
1935-36		32,035				
1936-37		31,336				
TOTAL	\$2,779,919 (b)	\$375,553	\$4,748,420	\$2,569,656	\$442,989	\$2,345,107

(a) Does not include sums paid to the School of Comparative Medicine and Veterinary Science, Montreal, of: 1913-14 \$4,628; 1914-15, \$4,392; 1915-16, \$5,130; 1916-17, \$5,714; 1917-18, \$7,425; 1918-19, \$6,667; 1919-20, \$5,882; 1920-21, \$5,000; 1921-22, \$4,614; 1922-23, \$4,884; 1923-24, \$5,476.

(b) A total of \$59,813 paid to the School of Comparative Medicine and Veterinary Science, Montreal is not included.



Chapter V. The Subsidy Relationship between Ontario  
and the Dominion.

The British North America Act provided in reference to Ontario:

1. A fixed subsidy of \$1,117,000 calculated at 80 cents per head on the population of Upper Canada in 1861 (1,396,091).
2. A joint debt allowance with Quebec of \$62,500,000. Since the existing debt of Upper and Lower Canada exceeded this allowed sum, Ontario and Quebec were to share interest at 5% on the surplus. The proportion of interest to be borne by each province was not designated in the British North America Act; but was reserved for decision by three arbitrators to be appointed after Confederation.
3. A grant for government of \$80,000.

During the first year of Confederation, Ontario received \$675,364 from the Dominion.

Ontario with its excellent system of local taxation, together with the federal subsidy, was in a comfortable financial position, and the Province did not need to approach the Dominion for an increased subsidy. The only claim which Ontario ever pressed upon the Dominion was in reference to the payment of interest upon its share of excess debt which the Dominion had assumed. The Finance Minister of the Dominion, Hon. John Rose, decided that interest payments by the provinces to the Dominion were payable in advance because, by the terms of the British North America Act, subsidies and interest on debt allowances were to be paid in advance to the provinces. The Dominion government proceeded to deduct the interest payment of Ontario from the federal subsidy six months in advance. E. B. Wood, the Treasurer of Ontario, protested, and insisted that interest was not due until it had accrued. Ultimately, the controversy was submitted to the Dominion Minister of Justice, Hon. J. A. Macdonald who, after investigation, accepted the view of Ontario. In accordance with this opinion, the Dominion revised its practice.

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(1) Dominion Sessional Papers, 1869, Vol. 5, No.46, pp.46 ff.





In 1869, when the Dominion Parliament instituted better terms for Nova Scotia, members from Ontario sought to prevent their enactment because the original terms were supposed to be final and unalterable. However, their action was defeated by the government on the grounds that the Dominion Parliament had the authority to spend its revenue as it saw fit. Nevertheless, the efforts of Ontario did not cease for its legislature addressed a Prayer to the Throne in December, 1869, with the complaint that the new subsidy to Nova Scotia would create the possibility of future demands upon the Dominion, would engender sectional strife, and would endanger the Canadian constitution. The address asserted that if a change in the financial relationship between the Dominion and Nova Scotia were necessary, it should entail a general revision for all the provinces. In addition, Ontario requested that the British Parliament enact a measure which would prohibit future revision of the subsidy or subsidies by the Dominion Parliament. The British government in reply stated that it could not accede to the Prayer because the Law Officers of the Crown had expressed the opinion that the Dominion Parliament had authority to pass the statute increasing the subsidy to Nova Scotia. Thereupon,<sup>(2)</sup> Ontario pursued its opposition no further.

In 1870, by the award of the arbitrators, Ontario was assigned \$5,500,000 of the \$10,400,000 excess debt. While this arrangement was satisfactory to Ontario, objections from Quebec led to a settlement in another fashion, the Dominion increasing<sup>(3)</sup> debt allowances sufficiently to absorb the excess debt. In 1884, again at Quebec's insistence, the interest deducted by the Dominion from 1867 to 1873 and interest thereupon was credited<sup>(4)</sup> to the provinces. The sum obtained by Ontario was \$2,848,300.

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(2) Ibid., 1870, Vol. 5, No. 25, pp. 1 ff.

(3) 36 Victoria, c. 30.

(4) 47 Victoria, c. 4.



Ontario took an interest in the Provincial Conferences of 1887, 1902, and 1906. During the earliest of these assemblies, the Ontario government advocated various constitutional reforms, but it was only slightly concerned over the proposals for better financial terms urged by the other provinces. However, both types of proposals were incorporated in the final resolutions of the Conference. Although Ontario was unable to participate in the Conference of 1902, it submitted a memorandum which expressed its views upon the subsidy system:

The increase in population had greatly increased the revenue of the Dominion, but had merely added to the expenses of Ontario because the population subsidy remained stationary at the figure established in 1867; the per capita subsidy should be readjusted every ten years, and the 80 cents per head should be paid upon a population of any size; and the allowance for government should be set at \$200,000 a year for a population of less than one million and at \$300,000 for a population over one million. Although the Conference did not adopt these suggestions, it reapproved the resolutions of the earlier Conference for increased population and government subsidies.

During the meeting of the Dominion-Provincial Conference of 1906, Ontario presented a memorial in reference to the granting of subsidies. The Ontario government admitted that a subsidy revision was necessary, but it urged that any change made should be in the form of a permanent settlement which would render periodic alterations unnecessary. The memorial suggested that, inasmuch as the customs and excise revenues were taken into account when the original subsidies were determined, the same factors should be considered in a new distribution. Attention was directed to the fact that in Australia the states received three-fourths of the customs and excise collected by the federal government, whereas in Canada in 1905 only 8.5% of collections eventually reached the provinces.





Ontario conceded that the smaller provinces were in need of extra allowances, but it urged that no special grants should be made in the future to any province. The general revision which was finally agreed upon by the provinces and the Dominion included a finality clause. The Act of 1907 increased the Ontario allowance for government from \$80,000 to \$240,000 and the population subsidy from \$1,100,000 to \$1,700,000, with provision for readjustment according to the population every ten (5) years. These sums augmented the total subsidy payable to Ontario by 58.9%.

In 1912, the Dominion Parliament enlarged the area of Ontario by approximately 146,400 square miles; this extension of the boundaries was northward and westward and included (6) a part of the Northwest Territory.

Another Provincial Conference convened in 1913, and Ontario took a prominent part in the drafting of a suggestion that the Dominion surrender 10% of its annual customs and excise collections to the provinces on the following principle - grants for government to be increased by 50% and the remainder to be allotted to the provinces on a population basis.

In 1912-13, the Dominion began to make conditional subsidy payments to the provinces for various services. The amounts paid to Ontario are classified in the table at the end of this section.

During the immediate post-war depression municipalities in Ontario received the following unemployment relief grants directly from the Dominion: 1920-21, \$173,000; 1921-22, \$162,000; 1922-23, \$520,000; 1923-24, \$1,300; and 1926-27, \$45,000 - a total of \$901,300. The depression beginning in 1929 produced another relief problem. The Dominion again assumed a share of relief costs, but payments were made directly to provinces for distribution among municipalities. Thus, a further subsidy relationship was instituted between the provinces and the

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(5) 6-7 Edward VII, c. 11.

(6) 2 George V, c. 40



Dominion. Ontario received the following relief grants:

1930-31	\$ 1,219,000
1931-32	9,351,000
1932-33	9,514,000
1933-34	11,987,000
1934-35	15,562,000
1935-36	15,530,000
1936-37	14,796,000
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Total	\$77,959,000
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As of 1936-37, Ontario obtained the following regular subsidies:

Population subsidy	\$2,559,000	(7)
Interest on debt allowance	142,000	
Grant for government	240,000	
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Total	\$2,941,000	
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Dominion payments to Ontario from 1867 to 1937 total \$267,932,009; this includes subsidy payments of \$125,469,365, conditional subsidy allowances of \$63,601,808, and relief grants of \$78,860,836.

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(7) Since the revision of 1907, the population subsidy has received the following augmentations: 1911, \$268,000; 1921, \$246,000; and 1931, \$299,000.

(8) This total does not include \$160,000 paid to Ontario Veterinary College for agriculture instruction.

(9) This total does not include \$900,000 paid by the Dominion to municipalities during 1920-24 and 1926-27.





CONDITIONAL SUBSIDY PAYMENTS TO ONTARIO

Year	Agricultural Instruction Act	Coordination of employment offices	Canada Highways Act	Technical Education Act	Eradication of Venereal Diseases	Old Age Pensions
1912-13	\$ 175,733					
1913-14	195,733 (a)					
1914-15	230,869					
1915-16	266,014					
1916-17	301,158 (a)					
1917-18	336,303					
1918-19	161,303 (a)	\$ 33,179		\$ 106,298	\$ 28,737	
1919-20	511,303	63,716		294,112	57,474	
1920-21	336,303 (a)	89,904	\$ 295,100	378,175	57,474	
1921-22	336,303 (a)	82,213	1,031,229			
1922-23	336,303 (a)	82,765	2,047,918	314,207	57,474	
1923-24	254,002 (a)	69,991	1,377,441	347,636	60,172	
1924-25		61,380	840,646	347,636	45,129	
1925-26		58,893	181,671	347,636	38,443	
1926-27		60,814	50,000	347,636	38,443	
1927-28		61,617	53,269	347,636	32,426	
1928-29		61,381		347,636	32,426	355,829
1929-30		61,570			32,426	3,516,806
1930-31		67,290			32,426	6,039,972
1931-32		67,217			32,426	
1932-33		63,331				6,827,955
1933-34		63,472				7,085,840
1934-35		64,789				7,671,619
1935-36		61,841				8,677,034
1936-37		61,865				9,146,838
Totals	\$3,441,329 (b)	\$1,237,228	\$5,877,275	\$3,178,609	\$545,474	\$49,321,893

(a) Does not include payments to the Ontario Veterinary College of: 1913-14, \$15,372; 1916-17, \$15,608; 1918-19, \$14,870; 1920-21, \$14,286; 1921-22, \$12,575; 1922-23, \$72,936; and 1923-24, \$14,524.

(b) Does not include a total of \$160,169 paid to the Ontario Veterinary College.



Chapter VI. The Subsidy Relationship between Manitoba  
and the Dominion

The Red River Rebellion of 1869-70 culminated in the organization of Manitoba as a Province of the Dominion in 1870. The terms under which Manitoba joined the Confederation were hurriedly drafted and lacked adequate provision for growth and development, as subsequent experience conclusively proved. The creation of Manitoba was premature, for it was not yet sufficiently settled and developed to support the various expenditures which a province is called upon to make.

The new province - the first added to the Dominion -  
was admitted under terms set forth in the Manitoba Act, 1870.<sup>(1)</sup> Although the provisions of the British North America Act, 1867, were made applicable to Manitoba, there were various financial arrangements which had to receive specific attention: 1. a population subsidy; 2. a debt allowance; and 3. a grant for the support of government. The population of the Province was assumed  
to be 17,000<sup>(2)</sup> for the computation of the population subsidy and the debt allowance. Manitoba was to receive an annual subsidy at 80 cents per capita until its population reached 400,000. The debt allowance was to be calculated at the per capita rate of \$27.77 - the figure upon which the debt allowances of Nova Scotia and New Brunswick were based. Inasmuch as there was no existing debt to be assumed by the Dominion, Manitoba secured a total debt allowance of \$472,000 upon which interest at 5% was to be paid by the Dominion. These terms afforded Manitoba the following annual grants:-

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(1) 33 Victoria, c.3.

(2) The population of Manitoba in 1870 is thought to have comprised about 1,600 whites and 9,850 half-breeds. No exact count appears to be in existence. The official census figure for 1871, including Indians, is 25,228. However, it would appear that in estimating the Indian population of Manitoba in 1871, the census branch is employing the area which the province now covers, rather than that which it covered in 1871 (less than 6% of the present area).





Subsidy.....	\$13,600.00
Debt Allowance.....	23,600.00
Grant for Government....	30,000.00
TOTAL	<u>67,200.00</u>

The terms of admittance also authorized the continuance without increase of the customs duties of Rupert's Land during the succeeding three-year period, but these receipts were to become a part of the general revenue of the Dominion.

In addition to the above arrangements, the Manitoba Act decreed that all unalienated public land in the Province should be retained by the Dominion. Three reasons can be ascribed for this action: 1. the Dominion government needed land to compensate the builders of the contemplated Transcontinental Railway; 2. the Dominion could more readily undertake the sale of land to provide the £300,000 which the Hudson's Bay Company was to be paid for the surrender of this area to Canada; 3. the Free Homestead policy of the United States made it imperative that a similar system be employed in the new province so that settlers might be attracted, and such a policy was dependent upon Dominion control because a provincial government might be reluctant to establish free land grants. Dominion administration of Manitoba public land introduced a new principle in the Dominion-provincial relationship because under the Act of Confederation the original provinces retained possession of their public land. This differentiation or inequality of terms established the basis for a controversy between the Dominion and Manitoba which persisted until 1930 when the land was returned to the Province.

Manitoba had hardly been created before financial difficulties made their appearance. In the first year of its existence - 1871 - the Province spent \$95,000 while its revenue totalled only \$70,000 of which \$67,000 came from the Dominion. The Province was able to produce only a small revenue because its sources of income were confined solely to marriage fees, law fees, and licences for the sale of liquor and with such a small



population these sources could not be lucrative. The persistent deficits which accompanied the early years of the Province's history were due chiefly to the failure of the framers of the Manitoba Act to provide for future development. They had failed to realize that with the influx of settlers, the expenditures of the Province would mount rapidly and yet at the same time these new people would be in no position to pay taxes for some years. The inadequacy of revenue caused constant appeal and complaint to the Dominion authorities and, although the Dominion extended temporary aid at various times, the Province continued to be in difficulty until 1885.

The first changes in the relationship between the Province and the Dominion occurred in the years 1872 and 1873. In the former year, the Dominion turned over to Manitoba an area of land, the sale of which was to provide a trust fund for the support of provincial education. In 1873, the Province profited through the increase of the debt allowances of all the provinces made by the Dominion to clear up the problem of the "excess debt" of Ontario and Quebec. Manitoba secured an additional debt allowance of \$80,000 at that time which increased<sup>(3)</sup> the annual subsidy on this account by \$4,000.

Manitoba pressed claims for financial aid upon the Dominion in every year from 1872 to 1876, which may be summarized as follows:

The revenue from the sale of school lands had been small, and Manitoba urged the Dominion to re-assume control of them and pay interest on the land valuation instead, beginning at 3% with 1/2% increase each year until the rate of 6% had been reached; the Province asserted that the substitution of Dominion custom duties for those of Rupert's Land in 1873 had weakened the finances of the inhabitants of the Province and correspondingly increased the Dominion revenue;

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(3) 36 Victoria, c.30.





compensation in the form of an increased subsidy was asked. The government of Manitoba argued that since Nova Scotia and New Brunswick had received extra subsidies Manitoba should be similarly treated; that for the computation of the various subsidies, the population of British Columbia had been taken at 60,000 (although actually there were only 11,000 whites) whereas Manitoba's population figure was only placed at 17,000; that Prince Edward Island upon its entrance into Confederation had received a debt allowance at the rate of \$50 per capita and an annual subsidy in lieu of public land of \$45,000, while the per capita basis of the debt allowance of Manitoba was only \$27.77, and it received no compensation for the lack of land. Another complaint asserted that a rapidly growing population had to be sustained by a subsidy based upon only 17,000 persons, for there would be no revision of the population subsidy until after the census of 1881. In addition, the Province had withdrawn sums from its debt allowance, with the result that the annual interest payments from this account had decreased from \$28,000 to \$20,000. The Manitoba government stated that it had been unable to develop direct taxation because the inhabitants of the Province were composed mostly of new settlers who had little money and to tax them heavily would seriously impair their well-being. The provincial delegation to the Dominion in 1875 concluded its appeal and protest thus:

"The only means of revenue are direct taxation or Dominion aid..... If the Government of Manitoba are compelled to resort to direct taxation it is impossible to foresee the result such a course would have, as the public mind is at the present very much dissatisfied with the existing state of affairs."<sup>(4)</sup>

The delegation apparently believed that if argument would not

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(4) Dominion Sessional Papers, 1885, Vol.10, No.34, p.275.



impress the Dominion, threats would produce the desired effect. (5)

After a thorough investigation of these claims and the financial situation of Manitoba, the Dominion government agreed to grant temporary relief upon the condition that the Province reduce its annual expenditure from \$107,000 to \$90,000. (6) This was accomplished by the abolition of the Legislative Council. Although the Dominion was of the opinion that the Manitoba deficit could be met by the imposition of direct taxation, it agreed that such a move was inexpedient at that time. Consequently, the Dominion Parliament in 1876 passed a statute whereby the Dominion payments to Manitoba were increased by a sum of \$26,700. until 1881 when the population subsidy would be revised. In addition, the Dominion took over the management of school land and agreed to pay the Province interest upon the sums realized from the sale of this land. (7)

However, the voice of Manitoba was not stilled for long: its population increased, its expenditures grew, and its deficits continued. The school land system set up in 1876 provided only a small revenue and since the school expenditures of the Province were large, the Manitoba government suggested in 1878 that the Dominion advance a fixed sum each year to be repaid from the sale of school land. (8) The Dominion acquiesced in this proposal and supplied \$10,000 for the years 1879 to 1881. (9)

In 1879, a delegation from Manitoba again approached the Dominion, this time with the plea that the population of

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(5) The arguments presented are found in Journal of the Assembly of Manitoba, 1872, Appendix; Ibid., 1874, Appendix; Dominion Sessional Papers, 1885, Vol. 10, No.34.

(6) The Legislative Council was composed of five members, each of whom received \$2,000 a year. This body, which absorbed nearly one-tenth of the annual expenditure, was not essential for the government of Manitoba.

(7) 39 Victoria, c.3.

(8) Dominion Sessional Papers, 1883, Vol.12, No.108, pp.4-8.

(9) 41 Victoria, c.13.





Manitoba had increased so rapidly that it totalled approximately 70,000 whereas the Province received a subsidy based upon only 17,000 persons. The memorandum deposited by the delegation intimated that direct taxation was still impossible and that the federal subsidy alone was not sufficient to meet provincial needs. The Province also presented a claim for either the control of its public land or for a sum in lieu thereof. (10) After an examination of the provincial situation, the Hon. Samuel L. Tilley, the Dominion Minister of Finance, accepted the plea of fiscal need and reported to the Dominion government that:

"Under the circumstances, the undersigned recommends that the annual allowance of \$90,000 be increased until the end of the year 1881, to \$106,000 being made up as follows, \$30,000 cost of government, \$56,000 being at the rate of 80 cents per head on an assumed population of 70,000 and \$20,000 being the interest on balance of capital at 5 per cent." (11)

These increases were approved and made effective by a Parliamentary Act. (12) At the same time, the Dominion government promised to provide Manitoba with plain but adequate public buildings. The subsidy revisions of 1876 and 1879 constituted recognition by the Dominion that the terms of Confederation were inadequate to meet the growing needs of the Province.

In February, 1881, a delegation from the Province went to Ottawa to present memorials for the continuance of the extra financial aid which was due to expire, for an enlargement of the Province, for possession of the unalienated public land in the Province, and for a readjustment of the subsidy in the following manner:

1. The debt allowance should be computed at the rate of \$32.43 per capita of the census of 1881;
2. The grant for government should be increased to \$60,000;

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(10) Dominion Sessional Papers, 1885, Vol.10, No.34, pp.295-296.

(11) Ibid., 1885, Vol.10, No.34, p.296.

(12) 42 Victoria, c.2. 1871



3. The per capita subsidy should be based on the population of 1881, but revised every three years until the number of inhabitants totalled 400,000; and
4. A subsidy of \$100,000 yearly should be awarded for the public land already turned over to the Canadian Pacific Railway and the remaining unalienated land should be returned to the Province.<sup>(13)</sup>

The suggestion that the per capita subsidy be revised every three years was designed to provide for a rapidly increasing population. The lack of some such arrangement had proved a disability since 1870. A separate Memorial was deposited in reference to the administration of natural resources; this statement contained the following argument:

Clause 92 of the British North America Act, 1867, assigned to the provinces the management and sale of their public lands, but

"The policy of Canada towards Manitoba stands out in marked contrast to that pursued towards the last-mentioned Province by the Dominion, for while we find British Columbia enjoying all the privileges conferred on the other Provinces, in reference to its public lands, Prince Edward Island which had no public domain, when entering Confederation, received an annual allowance to enable her to acquire the same, clause 30 of the Manitoba Act provides that all un-granted or waste lands in the Province shall be vested in the Crown and administered by the Government of Canada for the purposes of the Dominion".<sup>(14)</sup>

There no longer remained in Manitoba any large tracts of un-granted public land which the Dominion could colonize, but there were areas which, if vested in the Province, would increase the local revenues to such an extent that constant appeals for revenue would no longer be necessary. Since local authorities were better acquainted with the values of school land and were more competent to dispose of tracts at the most profitable price, this land should be reconveyed to the  
(15)  
Province.

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(13) Dominion Sessional Papers, 1885, Vol.10, No.34, pp.325-328.

(14) Ibid., p. 336.

(15) Ibid., pp.337-338; Ibid., 1883, Vol.12, No.188, pp. 1ff.





After an examination of the various submissions, the Dominion government promised to aid the Province. The boundaries of the Province were enlarged by Dominion legislation in March 1881,<sup>(16)</sup> and the Dominion government announced that the financial requirements of the Province would be dealt with as soon as information was secured from the census of 1881. After continued negotiations throughout 1881, the grants to Manitoba were raised in 1882 from \$105,650 to \$227,150 by setting the grant for government at \$50,000 instead of \$30,000 by basing the population subsidy on a population of 150,000 instead of 70,000,<sup>(17)</sup> and by introducing a subsidy in lieu of land of \$45,000.<sup>(17)</sup> These augmented sums were to be for a period of ten years only; that is, from 1881 to 1891. The claim for possession of the unalienated public land was denied because:

" The Committee of the (Canadian) Privy Council are not prepared to recommend any change in respect to the Dominion lands lying in Manitoba. The analogy, which the delegates see between the public lands in other Provinces and those in Manitoba does not seem to the Committee of Council to be well drawn, inasmuch as the other Provinces owned their lands before Confederation and brought them into the Union with them as their property, whereas the whole of Manitoba was acquired by the Dominion by purchase from the Hudson's Bay Company and thus became the property of the Dominion, and stand really, as it seems to the Committee of Council, in the same position as lands in the territories of the United States, which are not given to new States as these new States are created, but remain the property of the United States." (18)

The Dominion government also decided that for the best interests of the Province, the school land should remain in trust with the Dominion.<sup>(19)</sup>

Despite the action of the Dominion in increasing grants in 1882, Manitoba petitioned for aid again in that year and in 1883. The old subjects of complaint were raised again:

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(16) 44 Victoria, c.14.

(17) 45 Victoria, c.5. Interest on debt allowance meanwhile fell from \$19,653. to \$12,153. because of withdrawals.

(18) Dominion Sessional Papers, 1885, Vol.10, No.34, p.344.

(19) Ibid., 1882, Vol.12, No.108, pp.5-6; Ibid., 1883, Vol.10, No.82, pp.2-9.



Dominion retention of the public and school lands was unjust, the Dominion customs and excise duties fell more heavily upon the inhabitants of Manitoba than upon those of any other province; the monopoly of the Canadian Pacific Railway supported by the Dominion unduly burdened the people of Manitoba; and the limit of the population subsidy at 400,000 persons would soon prevent any increase in this annual sum.

The Dominion refused to take any action upon these complaints, but it did advance \$30,000 during the year 1882-83 for educational purposes; <sup>(20)</sup> this sum was to be charged against the sale of school land.

Again in 1884, a delegation descended upon Ottawa, and this time the Dominion government offered a revision of terms. Although the request for the provincial public and school land was refused, all swamp land was to be turned over to provincial control and 150,000 acres of land was to be held in trust by the Dominion for the establishment of a provincial university. The population basis for the debt allowance was to be raised to 150,000, but the 400,000 limit upon the population subsidy was not to be eliminated. (If this revision had been made it would have upset the whole subsidy basis). These terms would have increased the annual grants from the Dominion by about \$185,000. To end Manitoba demands the Dominion government stated that before Parliament would approve these revisions the provincial legislature would have to accept them as a final settlement for all claims against the Dominion. Inasmuch as this finality clause aroused great animosity among the people of Manitoba, and in order to stem an attack by the opposition, the government of Manitoba refused to accept the terms.

In the meantime, the Dominion government revised the

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(20) 47 Victoria, c.7.





debt allowances of all the provinces to make the alteration of 1873 as of 1867. By this section, the debt allowance of Manitoba was augmented by \$110,000 in 1884.<sup>(21)</sup> This increased the annual subsidy of the Province by \$5,500.

Manitoba could not continue without Dominion aid and the provincial government sought better terms than those proposed in the early part of 1884 and pressed for the exclusion of a finality clause. At first, the Dominion government refused to alter its offer; however, the provincial government was willing to accept a similar amount as long as the method of computation was revised so that a set of new conditions could be placed before the legislature. Consequently, the Dominion agreed to raise the subsidy in lieu of land from \$45,000 to \$100,000 and calculate the debt allowance of \$32.43 instead of \$27.77 per capita upon a population of 125,000 instead of 150,000 persons.<sup>(22)</sup> In addition, the census for the population subsidy was to be taken every five years and an estimate was to be made at equal intervals between each census; no immediate payment would accrue from this provision because the population of Manitoba was then smaller than its assumed total. The Dominion government insisted that these terms would only be granted if they were accepted as a final settlement of all claims between the Province and the Dominion. After a stormy session, the Manitoba legislature submitted to the Dominion condition, and the provisions were made effective by the Dominion Parliament in 1885.<sup>(23)</sup> When the new debt allowance of Manitoba was computed by the Dominion Department of Finance the previous debt allowances were entirely wiped out and the new allowance was placed at \$4,055,000 less deductions of approximately \$740,000 for advances previously made, including \$267,000 for Dominion expenditure upon the public buildings promised the Province in 1879.

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(21) 47 Victoria, c.7.

(22) 48 Victoria, c.50.

(23) Ibid.



Premier Norquay was present at the Provincial Conference of 1887 as an active supporter of the convenor, Premier Mercier of Quebec, and the resolutions of the Conference were accepted later by the Manitoba legislature. Shortly afterwards the Norquay government was replaced by the Greenway government. From 1888 to 1898, Manitoba was relatively content with its financial status and did not make any further requests. However, the question of the reduction in the debt allowance for public buildings was brought sporadically to the attention of the Dominion. Manitoba asserted that the Dominion promised to construct these buildings in 1879, and the cost should not be charged against the Province. Finally, in 1898, this sum of \$267,000 was restored to the debt allowance of the Province, along with \$232,000 to cover interest from 1885 to 1898.<sup>(24)</sup> During the period from 1888 to 1898, the Manitoba population subsidy increased because the population of the Province had expanded: in 1893 by \$2,000; and in 1896 by \$30,000.

The next period convenient for consideration is from 1899 to 1907 when a general revision of the whole subsidy relationship was made. In 1902, Manitoba attended the second Provincial Conference which was held at Quebec; Manitoba acquiesced in the endorsement of the financial proposals of the previous Conference but presented no specific demands of its own.

As a result of what was considered to be the generous terms upon which the Provinces of Alberta and Saskatchewan were admitted in 1905 the Dominion government deemed it expedient to increase the subsidies to all the provinces. With this in mind, the Dominion Premier called a Dominion-Provincial Conference for October 8, 1906. Manitoba participated in this gathering, but put forth no special claims or memorials. The Conference decided to revise the subsidies along the lines laid down by the Conference of 1887 and re-affirmed in 1902. This alteration provided for larger allowances for government, determinable by the population of the province concerned, and for population allowances of 80 cents per capita on a population up to 2,500,000 and thereafter at the rate of 60 cents. The effect these revisions had upon the annual income of Manitoba was to increase

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(24) 61 Victoria, c.4.





the grant for government by \$130,000, from \$50,000 to \$180,000. Inasmuch as the population of Manitoba was less than the former 400,000 limit, the population subsidy of Manitoba was not immediately affected.

Although the terms upon which Alberta and Saskatchewan were admitted aroused envy and protest in Manitoba, the Manitoba Premier did not raise this issue at the Dominion-Provincial Conference in 1906 because he believed better results could be obtained by individual and separate effort. Consequently, as soon as the general revision of 1907 was completed, the Manitoba government presented an elaborate appeal for equality with the two new provinces. It was asserted that the formation of these provinces with much larger areas and much larger subsidies was a direct insult to Manitoba. Therefore, similar terms were demanded. The Dominion government offered to extend the boundaries of the Province but refused to grant the same financial provisions. This concession was unacceptable to Manitoba.

No further action was taken in reference to the Manitoba demand until 1912, when the incoming Dominion government acceded to the desires of the Province. A Parliamentary Act <sup>(25)</sup> enlarged the boundaries of the Province and, in order to establish complete equality with Alberta and Saskatchewan, the swamp land was to be returned to the Dominion. Manitoba was also granted a subsidy in lieu of land similar to that of Alberta and Saskatchewan; the new rate was \$562,000 yearly but after deduction of \$138,000 for interest on \$2,770,000 which Manitoba had received from the sale of swamp land, and of \$15,000 for interest on the value of 150,000 acres (at \$2.00 an acre) of university land, the annual sum totalled \$409,000. The debt allowance of the Province was also placed upon a parity with that of the two new Prairie Provinces. Thus, a total of \$4,053,000 was added to the capital account of Manitoba, yielding \$203,000 annually.

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(25) 2 George V, c.32.



Despite this revision, the Manitoba government was not satisfied, for it asked that arrears be paid for the subsidies which would have been paid if these changes had been made in 1905. At first, the Dominion government refused this request, but finally agreed to grant arrears as from 1908. The land subsidy due was established at a yearly rate of \$346,000, which was derived by deductions of \$100,000 (the annual land subsidy actually paid) and of \$117,000 (the interest on the sums secured from the sale of swamp and university land) from \$563,000, the full annual rate.<sup>(26)</sup> Back interest on the debt allowance was \$203,000 a year. The total arrears for the four years amounted to \$2,250,000 which was paid (after deductions of land subsidy, interest and proceeds of swamp lands amounting to about \$867,200) in a lump sum to Manitoba in 1913. There was also another item of arrears, which arose from the fact that Alberta and Saskatchewan had been allowed \$469,000 for the construction of public buildings whereas Manitoba had only been credited with \$267,000 in 1898. Consequently, the difference, \$202,000, was paid to the Province in yearly instalments in 1913 and 1914.

In 1912, the first of a series of conditional subsidies was instituted by the Dominion. Manitoba's share is shown on the accompanying table.

In October, 1913, another Provincial Conference was held. Manitoba presented no particular claims at this meeting and merely joined in the proposal that the Dominion government assign 10% of the customs and excise revenues collected each year to the provinces.

Although Manitoba had received a generous subsidy in lieu of land in 1912, it readily joined in the request of Alberta and Saskatchewan that the Dominion restore the provincial public land to the provinces and at the same time continue the land subsidies. The Dominion government announced its willingness to

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(26) 2 George V, c.32.





CONDITIONAL SUBSIDY PAYMENTS TO MANITOBA

Year	Agricultural Instruction Act.	Coordination of Employment Offices	Canada Highways Act	Technical Education Act	Tradication of Venereal Diseases	Old Age Pensions
1912-13	31,730					
1913-14	51,730					
1914-15	58,075					
1915-16	64,421					
1916-17	58,767					
1917-18	89,113					
1918-19	77,113					
1919-20	77,113	\$ 2,639		\$ 2,648	\$ 6,306	
1920-21	77,113	26,500		7,268	12,611	
1921-22	77,113	22,655		21,174	12,611	
		38,862	\$ 351,741			
1922-23	77,113	30,755	165,547	25,121	12,611	
1923-24	68,666	23,017	557,272	20,092	8,931	
1924-25		14,280	79,280	19,500	9,586	
1925-26		13,914	133,535	19,489	7,706	
1926-27		12,677	57,744	20,056	7,995	
1927-28		12,479	257,045	27,530	6,744	242,304
1928-29		12,715		28,527	6,744	427,143
1929-30		11,508		41,542	6,744	652,804
1930-31		12,666		38,621	6,744	1,128,222
1931-32		11,100		27,488	6,744	
1932-33		11,104		46,169		1,362,138
1933-34		9,883		23,065		1,516,372
1934-35		9,444		9,431		1,655,956
1935-36		9,667		2,655		1,797,145
1936-37		10,417		22,217		1,922,415
TOTAL	808,068	306,280	1,602,265	402,594	111,877	10,704,499



return the land, but not to continue the subsidies. The provinces immediately refused this offer. Shortly afterward, the War broke out and this question was shelved temporarily. The provinces reiterated their request in November, 1918.

Soon after Rt.Hon. Arthur Meighen assumed office as Premier, the Prairie Provinces requested (November, 1920) that they be given an opportunity to confer with the Dominion government concerning the land question. The Dominion government agreed to discuss the matter but stated beforehand that the Dominion was in no position to continue the land subsidies and return the land, for if this were done the financial relationship of the other provinces would be out of balance and increased subsidies would have to be awarded to all provinces. Therefore, the Dominion was in a position to proffer only the land.

A conference was held but no agreement could be obtained. Manitoba, at this time, presented a claim based upon a pamphlet prepared for the Manitoba government by Mr. Chester Martin entitled The Natural Resources Question. He contended that possession of public domain was a part of provincial status under responsible government, and the retention by the Dominion was contrary to British practice and comparable to colonial conditions. At the best, the Dominion merely held this land in trust and therefore the provinces were due an accounting as to how well this trust had been administered. (Professor A.B. Keith, one of the foremost authorities on the constitutional law of the British Empire, subsequently argued that Mr. Martin was entirely incorrect in his statement of British practice.)<sup>(27)</sup> Nevertheless, the Manitoba government demanded that the Dominion render an accounting for the land upon a fiduciary basis. The Dominion government argued that an accounting was impossible because there was no adequate method

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(27) Responsible Government in the Dominions. Oxford, 1928, p.775.





whereby the effect of its policies of immigration, railways, irrigation, and mounted police in these areas could be computed. Again the Dominion offered the land without the subsidy, but this was refused.

Another conference was held in May, 1921, but progress was impossible due to the insistence of Manitoba that consideration be given for past policy. Apparently, the Dominion was to be held responsible for the land from the creation of Manitoba as a province, long before Alberta, Saskatchewan and the boundary extension of Manitoba were contemplated.

A new government came into power at Ottawa in the dying days of 1921. The new Prime Minister (Rt. Hon. W.L.Mackenzie King) wrote to the governments of the Prairie Provinces that an accounting would prove that the Dominion had spent as much on the provincial land as it had received in revenue. He proposed that the provinces take the land and forget about the past; however, he announced that the Dominion had no objection to an accounting by an impartial tribunal, but all money spent on the land by the Dominion must be deducted and the decision must be binding upon all concerned. Manitoba replied that it had given up the request for the continuance of the land subsidies, but it insisted upon an accounting since 1870. A conference was subsequently held in April, 1922, but no compromise could be reached, although the Dominion government declared it was willing to place the Prairie Provinces on a basis of "equality" with the other provinces.

Between 1922 and 1927, there were two more conferences, five or six informal interviews, and continual correspondence in regard to the Manitoba land. In January, 1927, the government of Manitoba implored the Dominion to submit the Manitoba claim to the Judicial Committee of the Privy Council for arbitration. In November of 1927, a Dominion-Provincial Conference was convened and the various provinces agreed that they had no objection to Dominion aid for the Maritimes (as suggested in the



Duncan Report) and to the continuance of the land subsidies to the Prairie Provinces, if satisfactory terms of reconveyance of the land could be arranged by the Dominion and the provinces concerned.

As a result, the Dominion and Manitoba governments signed an agreement in July, 1928, whereby the Dominion promised to place Manitoba "in a position of equality with the other provinces of Confederation with respect to the administration and control of its natural resources, as from its entrance into Confederation in 1870".<sup>(28)</sup> A Royal Commission was to be created to "report as to what financial readjustments should be made to effect this end",<sup>(29)</sup> and the public domain was to be placed under the control of Manitoba. Thus, the Dominion admitted that its retention of the land placed Manitoba in a position of inequality for which compensation was due. The Royal Commission consisted of Mr. Justice Turgeon, Hon. T.A. Crerar and C.M. Bowman. The Report of the Commission was made public on May 30, 1929, and its recommendation implemented by Parliament in 1930.

The Commissioners reported that it was difficult to define "equality" and "accounting upon a fiduciary basis". Prior to 1867, the Imperial Government alienated large areas of land in the North American provinces for which the colonies received no annual grant or any compensation. However, the Commission finally decided that the fundamental principle of equality in 1867 meant retention and possession of all public land existing at the time of entering Confederation, and on this reasoning Manitoba had not received equal treatment. The next task of the Commission was to determine the alienations of land for Dominion purposes: 5,500,000 acres of the 20,948,200 dispensed were without question for provincial purposes, but of the remainder, 7,508,000 acres for homesteads, 2,958,800 for railways, and

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(28) 20-21 George V, c.37, Schedule.

(29) Ibid.





2,560,500 sold, were all of a debatable category. The Commission concluded that all three classifications had been for Dominion purposes except for 575,000 acres of land which had been used to aid the construction of branch railway lines within the Province. The Board decided that the Canadian Pacific Railway was a national line and the Province was under no obligation to contribute to it in the form of land subsidization.

The next problem which confronted the Commission was the computation of the value of the land alienated for non-provincial purposes. It is possible that the Board adopted an ingenious but illogical system of calculations such as that previously employed to determine the Alberta and Saskatchewan land subsidy in 1905; the calculations have been worked out as follows: (30)

Year	Popu- lation	Assumed Area	Value at \$1.50 per acre	Annual Sub- sidy Rate	TOTAL
1870- 1880	Under 250,000	8,000,000	\$12,000,000	$\frac{1}{2}\%$ \$60,000	\$ 660,000
1881- 1900	Under 250,000	25,000,000	37,500,000	$\frac{1}{2}\%$ 187,500	3,750,000
1901- 1907	Over 250,000	25,000,000	37,500,000	1% 375,000	2,625,000
1908- 1928	Over 400,000	25,000,000	37,500,000	$1\frac{1}{2}\%$ 562,500 Total	<u>11,812,500</u> <u>18,847,500</u>

After the Dominion received credit for land subsidies of \$11,193,000 already paid, and \$3,070,000 for swamp and university land previously surrendered, the balance which the Commission thought the Province was entitled to was \$4,584,000. In addition, the Commission recommended the return of the unalienated land and the continuance of the land subsidy begun in 1912. It should be noted that the Commission did not undertake an accounting, for that would have been an impossible task. In addition, the Commission made no explanation as to why it recommended the continuance of the land subsidy. These recommendations were made effective (31) by the Dominion Parliament in 1930 after agreements had been

(30) See for a discussion of these calculations James A. Maxwell, Federal Subsidies to the Provincial Governments in Canada, p.161.

(31) 20-21 George V, c.29.



concluded between Alberta and Saskatchewan and the Dominion for similar treatment. The \$4,584,000 due for back land subsidies was paid in a lump sum to Manitoba in 1930, with interest at 5% for slightly over a year. The acts transferring the public lands to the provinces were made part of the British North America Acts by the Imperial Parliament.

Although all controversy between the Dominion and Manitoba was terminated by the settlement of the natural resources question, a further subsidy relationship has been introduced by the Dominion. In 1920, grants were begun for the aid of municipal relief costs in the provinces. These grants are neither conditional or unconstitutional subsidies and form a classification of their own. In the 1920's, municipalities in Manitoba received the following sums from the Dominion:-

1920-21	\$ 52,000
1921-22	100,000
1922-23	83,000
1926-27	15,000
	<u>\$250,000</u>

The depression which began in 1929 produced a severe relief problem throughout Canada. The Dominion extended aid again, but all payments were made directly to the provinces for further distribution. Since 1930, Manitoba has received the following relief grants:-

1930-31	\$ 306,000	
1931-32	3,429,000	
1932-33	2,829,000	
1933-34	2,476,000	
1934-35	2,212,000	
1935-36	3,328,000	
1936-37	4,851,000	(32)
	<u>\$ 19,431,000</u>	

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(32) In addition the Dominion made net loans to Manitoba for various purposes during the depression period as follows:-

1931-32	\$ 2,789,000
1932-33	5,172,000
1933-34	2,273,000
1934-35	2,875,000
1935-36	2,396,000
1936-37	4,626,000
Net Balance outstanding	<u>\$20,131,000</u>





From 1870, when Manitoba joined the union to March 31, 1937, the Province received a total of \$95,231,000 from the Dominion: this aggregate is composed of \$61,864,000 in subsidy payments, \$13,936,000 from conditional subsidies, and \$19,431,000<sup>(33)</sup> in relief grants. As of March 1937, Manitoba secures the following annual allowances from the Dominion:

Population subsidy.....	\$569,000	(34)
Interest on debt allowance.....	382,000	
Allowance for government.....	190,000	(35)
Subsidy in lieu of land.....	<u>562,000</u>	
Total	\$1,703,000	

After an investigation of Manitoba's affairs early in 1937, the Bank of Canada recommended a special interim subsidy for Manitoba. The sum of \$750,000 was voted by Parliament in the session of 1937 and the same amount in the session of 1938.

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(33) This total does not include \$250,000 paid by the Dominion to municipalities during 1920-23 and 1926-27.  
 (34) Since 1870, the population subsidy has increased by the following amounts:-

1893	\$ 2,000	1918	\$ 47,300
1896	30,000	1921	2,300 (reduction)
1901	2,700	1923	32,900
1903	49,400	1926	9,700 (reduction)
1905	75,800	1928	8,400
1906	12,500	1929	8,400
1908	76,700	1931	32,100
1911	4,800 (reduction)	1933	11,100
1912	4,800	1935	11,100
1913	56,300	1937	13,400 (reduction)
1916	17,500		

(35) The subsidy for government automatically increased from \$180,000 to \$190,000 in 1909.



Chapter VII.    The Subsidy Relationship Between Saskatchewan  
and the Dominion

The rapid expansion and settlement of the North-West Territories in the 1890's soon produced a demand for provincial status. By 1904, this desire could not longer be neglected and the Dominion Government under Sir Wilfrid Laurier took steps to grant the request. Consequently, in 1905, the Dominion Parliament enacted statutes to create the Provinces of  
(1)  
Alberta and Saskatchewan.

The financial terms under which Saskatchewan entered the union were drafted with the intent of providing for a growing entity and included the following provisions:

1. A population subsidy computed at 80 cents per capita upon an assumed population of 250,000 -- with revision every two and one-half years by count or estimation until the population of the Province totalled 800,000;
2. A debt allowance of \$8,100,000 based upon the same population at \$32.43 per capita;
3. A grant for government of \$50,000;
4. A sum for public buildings of \$465,000 payable over five years; and
5. A subsidy in lieu of land (the Dominion retained possession and control of the public land in the Province as it had in Manitoba) which increased with the population of the Province - under 400,000, \$375,000; between 400,000 and 800,000, \$562,500; between 800,000 and 1,200,000, \$750,000; and over 2,500,000, \$1,125,000.

The sums payable in lieu of land were determined in the following manner: the land suitable for settlement was estimated at 25,000,000 acres and its value at \$1.50 an acre, or \$37,500,000. Payments were to be made annually at 1% on this valuation while the population of each province was under 400,000; thereafter until the population reached 800,000 at the rate of 1½%; similarly until the population totalled 1,200,000 at 2%; and thereafter at 3%. These calculations were based upon no proven facts and were

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(1) 4-5 Edward VII, c. 3 and 42.





employed merely to provide the growing provinces with adequate revenue. The danger of setting forth a valuation of the land in a statute was recognized before the Acts were passed and the estimate of area, value per acre, and percentage rates were deleted. Only the subsidy amounts varying according to population were retained in the Acts.

Under the terms set forth in the Saskatchewan Act of 1905, the Province began its first year as a member of the Dominion with the following annual subsidies:

Population subsidy.....	\$200,000
Interest on debt allowance.....	405,400
Grant for government.....	50,000
Land subsidy.....	375,000
Public buildings (5 year only)...	93,700

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Total.....\$1,124,100

This total is an impressive contrast to the \$67,200 allowed Manitoba during its first year of existence in 1870-71, even after allowing for the difference in population.

In 1906, the population subsidy of Saskatchewan received the first of a number of augmentations due to the rapid expansion of the population of the Province. In the same year, Saskatchewan attended the Dominion-Provincial Conference and approved the proposed subsidy increases. As a result of the revision of 1907, the allowance for government increased from \$50,000 to \$180,000, the total subsidy receivable being augmented by 11.5%<sup>(2)</sup>.

Since 1912 the conditional subsidies shown in the accompanying table have been paid to Saskatchewan.

For approximately six years the Prairie Provinces were content with their lot in the union. However, a definite demand gradually formulated in the provinces for possession of the provincial public land. In Saskatchewan, this first took the form of a legislative resolution (in 1911) which, while affirming the right of the Dominion to retain the agricultural land in the Province, requested the Dominion to turn over the hinterland to the north and all natural resources of a local nature.<sup>(3)</sup> The

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(2) 6-7 Edward VII, c. 11.

(3) Saskatchewan, Journal of Assembly, 1910-11, p.26.



## CONDITIONAL SUBSIDY PAYMENTS TO SASKATCHEWAN

Year	Agricultural Instruction Act	Coordination of Employment Offices	Canada Highways Act	Technical Education Act	Eradication of Venereal Diseases	Old Age Pensions
1912-13	\$ 34,296					
1913-14	54,296					
1914-15	61,152					
1915-16	68,011					
1916-17	74,870					
1917-18	40,864					
1918-19	81,728	\$ 2,736		\$ 1,142	\$ 7,681	
1919-20	122,593	18,907		3,534	15,362	
1920-21	40,864	25,056		13,666	15,362	
1921-22	122,593	27,757	\$193,773			
1922-23	81,728	30,528	544,821	18,264	15,362	
1923-24	80,422	25,152	360,130	18,397	15,537	
1924-25		18,845	335,760	17,249	11,653	
1925-26		19,646	85,944	20,084	9,927	
1926-27		19,225	163,966	18,022	9,927	
1927-28		18,753	121,861	17,048	8,373	\$191,042
1928-29		18,886		25,160	8,373	333,287
1929-30		18,452		60,506	8,373	585,940
1930-31		15,236		198,290	8,373	1,184,540
1931-32		14,524		170,095	8,373	
1932-33		14,387		75,568		1,316,957
1933-34		14,017		45,971		1,328,057
1934-35		13,257		41,673		1,455,196
1935-36		12,680		47,363		1,582,605
1936-37		12,877		21,534		1,706,190
TOTAL	\$863,419	\$340,921	\$1,806,255	\$813,564	\$142,673	\$9,683,815





Dominion government under Sir Wilfrid Laurier replied that to make such a change would upset the relationship between Saskatchewan and Alberta, thereby necessitating a further revision of terms, so the request was refused. In the Dominion election of 1911, the Laurier government was defeated and a Conservative government with the Rt. Hon. Robert L. Borden as Prime Minister came into power. The Conservatives had severely criticized the Laurier government in 1905 when the two new Provinces were created because the public land had been retained in Dominion possession. Consequently it was hoped that when the Conservatives assumed office they would convey the public land to provincial administration. Accordingly, in December, 1913, the Premiers of the Prairie Provinces wrote to the Prime Minister with the request that the Dominion return the land to the provinces and continue the subsidy in lieu thereof as compensation for the land already alienated.<sup>(4)</sup> Sir Robert decided to send a copy of the letter from the Prairie Provinces to the Maritimes for comment before he undertook any negotiations. The Maritime Provinces observed that the Prairie Provinces had received generous treatment at their inception and if they were to secure their land and the land subsidy in addition, the whole basis of provincial subsidies would be upset and a general revision of financial terms would be necessary. Sir Robert Borden later informed the Prairie Provinces that their request was more than he had ever contemplated and to grant it would force the revision of all subsidies which would place too great a burden upon Dominion revenue. He offered to transfer the land on condition that the land subsidy be relinquished, but this proposal was refused. Subsequently, the World War stilled the land controversy, along with other issues,<sup>(5)</sup> for several years.

The first post-war move was taken on November 19, 1918, when the three Prairie Provinces renewed their demand for the land and the land subsidy. Prime Minister Borden was about to

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(4) Debates, 1914, pp.1073-1074.

(5) The Canadian Annual Review of Public Affairs, 1914, Toronto, pp. 709-710.



call a conference to discuss the matter when he became ill and decided to retire to private life. Soon after the Rt. Hon. Arthur Meighen had assumed the office of Prime Minister (in November, 1920) the Prairie Provinces asked for a conference. He complied, but before the conference convened he reviewed the whole subject in a letter of December 7 to the Premiers of the Prairie Provinces, stating that any settlement would have to be satisfactory to the Dominion Parliament and to the other provinces as well as to the Prairie Provinces. If the land subsidies were continued, increased grants would have to be given to the other provinces and this revision could not be undertaken because the Dominion was heavily burdened by war debts. He offered the land without the subsidies. (6)

No agreement resulted from the conference, because Manitoba insisted that the provinces had a constitutional right to the land, and before it would accept the land without the subsidy, it desired an accounting of the Dominion administration upon a fiduciary basis. Saskatchewan supported this contention, not because of the equity of the claim, but because the position of the Dominion could not be accepted. The Rt. Hon. Arthur Meighen asserted that an accounting would be impossible because it would have to take into consideration the Dominion policies of immigration, railways, irrigation, and mounted police which were involved in Dominion control of the land. Finally, he suggested that the provinces take the land and forget about the subsidy. (7) However, the provinces were adamant.

Another meeting was held in May, 1921, but progress was impossible because Manitoba insisted that consideration be given for past policy. Saskatchewan and Alberta asked compensation from 1870, long before these two Provinces were

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(6) Dominion Sessional Papers, 1922, Vol. 9, No. 142b, pp. 1 ff.

(7) Ibid., pp. 1-15.





contemplated. The Provinces decided to act separately in subsequent negotiations with the Dominion.<sup>(8)</sup>

Shortly after the Rt. Hon. W. L. Mackenzie King came into office, he wrote the three Prairie governments (on February 22, 1922):

"The shortest and simplest way of settlement, the one admitting of quick result, would be to ignore the transactions of the past and make a fresh start. It is the opinion of some parties, who have given the matter careful attention that an accounting for the transactions of the past would not likely result in any particular advantage on either side. It is suggested that whatever sums have been received by the Dominion Government from these lands are probably balanced by the sums spent by the Government one way or another in the management of the lands.<sup>(9)</sup>

He emphasized the fact that if the Provinces would accept this plan they could have the land immediately. However, the Dominion was willing to permit an accounting by an independent tribunal but the decision must be binding and all money previously spent by the Dominion must be deducted.

In reply, the Saskatchewan government announced that it was willing to abandon the demand for the continuance of the land subsidy, but it desired compensation for all land alienated by the Dominion since 1905. This claim was based upon the grounds that the British North America Act, 1867, assigned each province its public land and if the Dominion had alienated half of the land since 1905, should not the Province receive half of the value as of 1905? A conference was held in April, 1922, but no satisfactory compromise could be reached even though the Dominion declared its willingness to place the Prairie Provinces on a basis of "equality with the other Provinces". Each Province decided again to pursue its own case individually thereafter.<sup>(10)</sup>

During the period 1922-29, Saskatchewan took no active part in the land controversy, being content to observe the

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(8) Ibid., pp. 16-29.

(9) Ibid., Vol. 9, No. 142a, p. 3.

(10) Ibid., pp. 2-13; Debates, 1922, p. 1018.



results obtained by Manitoba and Alberta then negotiating separately with the Dominion. The award in 1926 of the Duncan Commission, which proposed increased subsidies to the Maritimes, opened the way for action upon the Prairie claims. In July, 1928, the Dominion and Manitoba concluded an agreement whereby the Dominion appointed a Commission to place Manitoba in a position of equity with the other provinces in respect to administration and control of its national resources from 1870. In December, 1928, the Dominion government offered Saskatchewan its land and the continuance of the land subsidy at \$562,500 without increase thereafter. This overture was refused. In 1929, the Manitoba Board awarded the Province \$4,584,000 for arrears on land subsidies; in addition, Manitoba was to obtain possession of all unalienated public land and was to receive in perpetuity the land subsidy with increases according to population growth.

In March, 1930, an agreement was signed between the Dominion and Saskatchewan Governments for: 1. the transfer of the unalienated resources; 2. the continuance of the land subsidy without alteration; and 3. the appointment of a Royal Commission to enquire whether compensation was due Saskatchewan for Dominion possession. Saskatchewan reserved certain demands pending a judicial determination of the right of the Dominion to hold the land except as an "administrative trustee", - if this were established the Dominion would have been responsible for the administration of the land since its purchase in 1870, and compensation would have been due from that date instead of 1905.<sup>(11)</sup>

The Saskatchewan contention that the Dominion was merely an "administrative trustee" was denied by both the Supreme Court of Canada and the Judicial Committee of the Privy Council.<sup>(12)</sup> Thereupon, the question of compensation since 1905 was submitted to a Commission composed of Mr. Justice Dysart, of the Court of King's Bench of Manitoba, Mr. Justice Bigelow, of

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(11) Dominion Sessional Papers, 1930, No.108a. pp.1 ff.

(12) Dominion Law Reports. Vol. IV, 1931, pp.712-720.





the Court of King's Bench of Saskatchewan, and G. C. McDonald. Hearings were held in the winter and spring of 1934, and a report was issued in 1935.

The Commission concluded that under provincial control the free homestead policy would not have been continued throughout the whole period from 1905, but there was no method whereby this differentiation could be determined. As for the alienations, the Commission believed that the 873,000 acres granted to half-breeds and the 1,850,000 acres given to soldiers were for the discharge of Dominion obligations. In addition, the Dominion was responsible for 2,200,000 acres of land which had been used to subsidize railways built in Manitoba. Although Saskatchewan asserted that the Dominion administration of resources - particularly school land, grazing leases, timber areas, and mineral land - had been lax and inefficient, the Commission held that some errors were to be expected and rejected all claims for compensation based upon this contention. In fact, the Commission concluded that the Dominion sales of school lands had been well executed. Despite the fact that the Commission believed that Saskatchewan had suffered some loss from Dominion control of land, the Board made no estimate of this amount.

The credits claimed by the Dominion were also reviewed. Relevant to school land, the Dominion had paid Saskatchewan \$16,350,000 from 1905 to 1930, and in 1930 it had conveyed a principal sum of \$17,800,000 along with agreements for sales of \$16,350,000. The subsidy in lieu of land already paid, totalled \$14,200,000, and the capital value (at 3%) on future subsidies was \$33,000,000. In addition, the Dominion had spent \$23,000,000 in the administration of Saskatchewan land and resources.

After consideration of all these factors, the Commission decided that an award of \$5,000,000 would be fair compensation for the revenue which the Province had lost through the lack of public land although no computations were presented



to indicate how this sum had been obtained. Mr. Justice Bigelow submitted a dissenting report in which he concluded that Saskatchewan should receive an award of \$58,200,000. He based his decision upon two approaches: if Manitoba had received reimbursement for alienations on a certain area from 1870 to 1909, should not Saskatchewan receive a proportionate sum for the period from 1905 to 1930? On this basis, he estimated damages of \$63,000,000. It should be noted that the award to Manitoba had been not for alienations but for arrears of land subsidy and Saskatchewan had no claim to the latter. By another method of approach, Mr. Justice Bigelow concluded that if Saskatchewan had been in control of its land it would have adopted a revenue policy and its administration would have been more business-like; on these grounds, he calculated an award of \$58,200,000. (13)

The award of the Commission has not been made operative because the terms of the agreement whereby the Commission was created provided that the report must be accepted by both governments. The opinion of Mr. Justice Bigelow aroused the people of Saskatchewan and the \$5,000,000 was considered extremely inadequate. Consequently, the question of compensation remains unsettled.

The depression which followed the World War created a serious problem of unemployment relief. The Dominion undertook to pay a portion of municipal relief costs. In the early 1920's, the Dominion distributed the following sums to municipalities in Saskatchewan: 1920-21, \$19,300; 1921-22, \$45,200; and 1922-23, \$18,200 - a total of \$82,700. The recent depression and a severe drought in 1931 and 1932 resulted in extensive unemployment throughout Saskatchewan. The Dominion assumed a share of relief costs, but all payments were made to the provinces for distribution among the towns and cities.

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(13) Report of the Royal Commission on the Natural Resources of Saskatchewan, Ottawa, 1935, pp.26-68.





Thus, a new subsidy relationship was founded between the Dominion and the provinces. Since 1930, Saskatchewan has received the following relief grants from the Dominion:

1930-31	-	\$535,700	
1931-32	-	7,914,800	(14)
1932-33	-	7,114,100	(15)
1933-34	-	2,683,400	
1934-35	-	8,046,400	
1935-36	-	7,212,600	
1936-37	-	<u>11,255,600</u>	

Total - 44,762,600 (16)

As of March 31, 1937, Saskatchewan obtained the following annual subsidies from the Dominion:

Population subsidy .....	\$ 744,700	(17)
Interest on debt allowance..	405,400	
Grant for government .....	220,000	(18)
Land subsidy .....	<u>750,000</u>	
Total .....	<u>\$2,120,100</u>	

(14) Includes \$5,250,000 spent by the Saskatchewan Relief Commission.

(15) Includes \$4,736,000 spent by the Saskatchewan Relief Commission.

(16) In addition the Dominion made loans to Saskatchewan for relief, general purposes, and maturities. The net amounts secured by Saskatchewan were:

1931-32	-	\$10,934,000
1932-33	-	7,578,000
1933-34	-	5,469,000
1934-35	-	10,141,000
1935-36	-	14,245,000
1936-37	-	<u>6,059,000</u>
Net total outstanding		
March 31, 1937	-	<u>\$54,426,000.</u>

(17) The population subsidy has increased as follows:

1906	-	\$ 6,000	
1908	-	63,000	
1911	-	124,000	
1913	-	159,000	
1917	-	34,000	(reduction)
1918	-	77,000	
1921	-	11,000	
1923	-	57,000	
1926	-	6,000	(reduction)
1928	-	15,000	
1929	-	15,000	
1931	-	49,000	
1933	-	16,000	
1935	-	16,000	
1937	-	<u>25,000</u>	(reduction)

(18) The grant for government increased with the population in 1913 from \$180,000 to \$190,000, and in 1923 to \$220,000.



The total of payments received by Saskatchewan from the Dominion by March 31, 1937, approximated \$114,488,000; this sum was composed of regular subsidies of \$55,998,000, conditional subsidies of \$13,648,000 and relief grants of (19) \$44,762,000.

Since that date, acting upon a recommendation of the Bank of Canada which followed a survey of Saskatchewan's fiscal position, a special interim subsidy of \$1,500,000 was voted by Parliament in the session of 1937. A similar sum was voted in the session of 1938.

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(19) This total does not include \$83,000 paid by the Dominion to municipalities during 1920-23.





Chapter VIII.    The Subsidy Relationship Between  
Alberta and the Dominion

The financial terms under which Alberta entered the Union were drafted with the purpose of providing for a growing entity and included the following provisions:

1. A population subsidy computed at 80 cents per head on an assumed population of 250,000 -- with revision every two and a half years by count or estimate until the population totalled 800,000;
2. A debt allowance of \$8,100,000 based upon the same population at \$32.43 per capita;
3. A grant for government of \$50,000;
4. A sum for public buildings of \$465,000, payable over five years;
5. A subsidy in lieu of land <sup>(1)</sup> which increased with the population of the Province -- under 400,000, \$375,000; between 400,000 and 800,000, \$562,500; between 800,000 and 1,200,000, \$750,000; and over 2,500,000 \$1,125,000.

This last was determined in the following manner: the value of the public land suitable for settlement in each province was placed at \$37,500,000 (25,000,000 acres at \$1.50 per acre); until the population of Alberta reached 400,000, the Dominion would pay interest upon this valuation at 1% per year, or \$375,000; while the population was between 400,000 and 800,000, the interest rate paid would be  $1\frac{1}{2}\%$  for a population between 800,000 and 1,200,000, 2% and thereafter, 3%. These calculations were based upon no proven facts, and were employed merely to provide the

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(1) The Dominion retained possession and control of the public land in the Province as it had in Manitoba.



growing provinces with adequate revenue. The danger of setting forth a valuation for the land of the Province was recognized before the statutes were passed and the estimate of area, value per acre, and percentage rates were struck out. Only the subsidy amounts varying according to population were retained in the Acts.

Under the terms set forth in the Act of creation, Alberta began its first year as a Province of the Dominion with the following annual subsidies:

Population subsidy .....	\$ 200,000
Interest on debt allowance ..	405,000
Grant for government .....	50,000
Land subsidy .....	375,000
Public buildings (5 years only)	94,000
	<hr/>
Total	<u>\$1,124,000</u>

This total compares favourably with the \$67,000 granted to Manitoba during its first year of existence, even after allowance for the difference in population.

Alberta attended the Dominion-Provincial Conference of 1906 and approved the recommendations for subsidy increases. As a result of the revision of 1907, the allowance for government of the Province was increased from \$50,000 to \$180,000; the total subsidy receivable was augmented by 11.5%<sup>(2)</sup>. In 1908, Alberta began to enjoy augmented population subsidies due to the increase of its population beyond the figure assumed in 1905. In 1913, Alberta joined the other provinces in a Provincial Conference which recommended that the Dominion set aside 10% of its annual customs and excise collections as an additional subsidy for the provinces. However, the Dominion refused to implement this proposal.

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(2) 6-7 Edward VII, c. 11.





Since the institution of conditional subsidies in 1912 Alberta has received the payments noted in the accompanying table.

A movement gradually arose for possession of provincial lands and eventually in 1910, the Alberta Legislature approved a resolution urging Dominion conveyance of the public land in the north and all resources of a purely local concern, the Province appeared willing to let the Dominion retain its agricultural lands. In 1912, the Province went a step further and the Legislature passed a resolution demanding the transfer to the Province of all natural resources. Finally, in December, 1913, the Premiers of the Prairie Provinces addressed a joint letter to the Dominion government with the request that the land be placed under provincial authority and the land subsidy be continued as compensation for the land already alienated.<sup>(3)</sup>

The negotiations following this and their result are detailed in the section dealing with Saskatchewan.

At a meeting with the Dominion government held in May, 1921 Saskatchewan and Alberta asked compensation from 1870, - long before these two Provinces were contemplated. Following the decision of Alberta and Saskatchewan to act separately in subsequent negotiations with the Dominion, on June 6, 1921, Alberta accepted the principles set forth in the Rt. Hon. Arthur Meighen's letter of December 7, and announced its willingness to negotiate upon these terms (transference of land without the continuance of the subsidy). However, before any action could be taken the Meighen government passed from

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(3) Debates, 1914, pp. 1073-1074.



CONDITIONAL SUBSIDY PAYMENTS TO ALBERTA

Year	Agricultural Instruction Act	Coordination of Employment Offices	Canada Highways Act	Technical Education Act	Eradication of Venereal Diseases	Old Age Pensions
1912-13	\$ 26,095					
1913-14	46,095					
1914-15	51,310					
1915-16	56,529					
1916-17	61,747					
1917-18	66,966					
1918-19	66,966	\$ 3,500		\$ 17,108	\$ 5,990	
1919-20	66,966	22,482		41,438	11,980	
1920-21	66,966	31,772		82,606	11,980	
1921-22	33,483	31,886				
1922-23	100,448	28,846		71,020	11,980	
1923-24	66,938	20,758		57,614	12,070	
1924-25		13,631	\$ 210,586	62,216	9,052	
1925-26		13,736	415,374	72,732	7,711	
1926-27		13,423	59,630	85,789	7,711	
1927-28		13,131		74,000	6,504	
1928-29		12,932	792,220	92,222	6,504	
1929-30		12,712		21,780	6,504	\$ 62,555
1930-31		11,624			6,504	320,364
1931-32		11,462			6,504	645,367
1932-33		11,849				827,830
1933-34		11,747				934,388
1934-35		11,408				1,070,901
1935-36		11,679				1,224,105
1936-37		11,172				1,409,060
TOTAL	\$710,508	\$299,748	\$1,477,810	\$678,524	\$110,994	\$6,494,570





power. In 1922, Alberta again expressed a willingness to abandon the demand for the land subsidy, but it desires compensation (4) for all land alienated by the Dominion since 1905.

In 1926, after four years of separate conferences and negotiations, Alberta and the Dominion signed an agreement whereby the Province agreed to accept its land without an accounting but with the continuance of the land subsidy for three years. When the House of Commons considered ratification of this agreement, members from Quebec insisted that the educational rights of Catholic minorities in the Province would have to be safeguarded before the compact was approved. In order to avoid a sectarian dispute, the Government immediately dropped (5) the entire proposal.

The award of the Duncan Commission in 1926, which proposed increased subsidies to the Maritimes, opened the way for action upon the Prairie claims. In December, 1928, the Dominion government offered Alberta its land and the continuance of the land subsidy at \$562,800 without increase thereafter. This overture was refused.

In December 1929, the governments of the Dominion and Alberta concluded an agreement for : 1. the return of the public land; 2. continuance of the land subsidy; and 3. appointment of a Royal Commission to determine whether Alberta should receive any further compensation, the decision of this Commission to be accepted by both governments before it would become effective. Shortly afterward, an agreement was made between the Dominion and Saskatchewan; certain claims were reserved pending a judicial decision as to whether the Dominion was an "administrative trustee" of the public land since 1870. Alberta asked for a similar provision, and its (6) agreement was modified.

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(4) Dominion Sessional Papers, 1922, Vol.9, No. 142(b), pp.1-29.

(5) Dominion Sessional Papers, 1926, No.75, pp.1 ff.

(6) Dominion Sessional Papers, 1930, No.108(a), pp.1 ff.



Although the provincial land was returned to the Province in 1930, the Royal Commission was not appointed until <sup>(7)</sup> 1933. The Alberta Commission comprised Mr. Justice Dysart, of the Court of King's Bench of Manitoba, Mr. Justice Tweedie, of the Supreme Court of Alberta, and G. C. McDonald (Dysart and McDonald were also members of the Saskatchewan Natural Resources Commission). In its report, the Commission determined that Alberta had not enjoyed equality with the other provinces because it had not secured possession of its land in 1905. The Commission found that if Alberta had controlled its land, it would have obtained more revenue than it did under Dominion administration, though the compensation due for this difference could not be determined. Alberta would have had to adopt a homestead policy similar to that applied by the Dominion, therefore, no compensation was due for the 15,800,000 acres of land which the Dominion had assigned. However, there were certain Dominion alienations for which Alberta should receive reimbursement: 128,250 acres of land granted to half-breeds, and 1,750,000 acres awarded to soldiers. All assignments of land to railroads had been concluded before 1905 and therefore received no consideration. The alienations of under-soil rights had been large, and the Commission believed Alberta would have secured a larger revenue from these resources because the Dominion had been primarily interested in development. Although Alberta claimed that the Dominion had been inefficient in its administration of school lands, grazing leases, timber sales and leases, and mineral areas, the Commission held the Dominion control had been well managed, and no compensation was warranted.

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(7) The establishment of the Commission was delayed pending the judicial decision as to whether the Dominion held the land as an administrative trustee since 1870. This contention was denied by both the Supreme Court of Canada and the Judicial Committee of the Privy Council.





In addition, there were various claims of the Dominion which the Commission took into consideration: \$10,570,000 for school land sales paid to Alberta from 1903 to 1920; \$9,500,000 in principal and \$8,000,000 in land sale agreement turned over in 1930; \$12,750,000 for land subsidies paid and \$29,000,000 for the capital value (at 3%) of future subsidies; and \$30,000,000 for administrative costs.

After weighing these various factors, the Commission awarded a lump sum of \$5,000,000 as compensation for land alienation, without indicating exactly how that sum was determined. Alberta has not accepted the decision because it awaits action by Saskatchewan, where dissatisfaction arose over a dissenting opinion of one of the members of the Saskatchewan Commission who found damages of \$58,000,000. Therefore, this question of compensation for Dominion control of land has not been settled, and certain phases of the problem remain moot points.<sup>(8)</sup>

The depression which followed the World War created a serious unemployment relief problem. The Dominion undertook to pay a portion of municipal relief costs. In the 1920's, the Dominion distributed the following sums to municipalities in Alberta: 1921-22, \$52,200; 1922-23, \$50,700; 1923-24, \$2,900 and 1926-27, \$11,400 - a total of \$117,200. The recent depression resulted in extensive unemployment throughout Canada, and the Dominion again assumed a share of relief costs. However, payments were made directly to the provinces for distribution among the towns and cities. Thus, a new subsidy relationship was established between the Dominion and the provinces. Since 1930, Alberta has received the following relief grants from the Dominion:

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(8) Report of the Royal Commission on Natural Resources of Alberta, Ottawa, 1935, pp.20-41.



<u>Year</u>	<u>Amount</u>
1930-31	\$ 187,000
1931-32	2,566,000
1932-33	2,607,000
1933-34	1,453,000
1934-35	1,713,000
1935-36	1,832,000
1936-37	3,657,000
	<hr/>
Total	\$14,015,000 (9)

The regular subsidies obtained by Alberta from the Dominion under the arrangement in force March 31, 1937, consist of:

Population subsidy	\$ 618,200 (10)
Interest on debt allowance	405,400
Grant for government	190,000 (11)
Land subsidy	562,500
Total	<hr/> \$1,776,100

The Dominion has made payments to Alberta, as of March 31, 1937, of \$73,000,000; this sum consists of \$49,000,000 (12) from subsidy payments; \$10,000,000 from conditional subsidies, and \$14,000,000 from relief grants.

(9) In addition, Alberta has borrowed various amounts during this period from the Dominion to meet relief costs, ordinary expenditures and maturities. The net sums advanced each year to Alberta were:

1931-32	\$ 4,098,000
1932-33	1,902,000
1933-34	4,051,000
1934-35	1,926,000
1935-36	13,104,000
1936-37	805,000
	<hr/>
Total	\$ 25,886,000

(10) The population subsidy was augmented in the following manner:

1908	\$ 13,000
1911	87,000
1913	131,000
1917	34,000 (reduction due to correction
1918	66,000 of estimation by a count.)
1921	8,000
1923	46,000
1926	30,000 (reduction)
1928	13,000
1929	13,000
1931	73,000
1933	14,000
1935	14,000
1937	5,000

(11) The grant for government automatically increased from \$180,000 to \$190,000 in 1913.

(12) This total does not include \$117,000 paid by the Dominion to municipalities during 1921-24 and 1926-27.





Chapter IX. The Subsidy Relationship between  
British Columbia and the Dominion

Federation with Canada became the objective of the people of British Columbia at the time when the Quebec Resolutions were drafted in 1864. However, two obstacles stood in the way; first, the land between the colony and Canada belonged to the Hudson's Bay Company and there could be no line of communication with the east until Canada acquired this area. Secondly, Governor Seymour of British Columbia and his clique did not wish to lose their power and federation with Canada would naturally result in the establishment of responsible government in British Columbia. Despite the wishes of the people of British Columbia, Governor Seymour resisted all efforts for union; he particularly deprecated this idea in his despatches to the Colonial Secretary. However, Seymour died in 1869, and he was replaced by Anthony Musgrave who, as Governor of Newfoundland, had taken an active part in the movement for federation of British North America. In the meantime, the Dominion had made arrangements for the purchase of the Hudson's Bay Territory and federation of the Pacific province became a possibility. The Colonial Office recognized the necessity for transportation facilities between Canada and British Columbia and, since federation with Canada appeared to offer the best method to secure this link, the Colonial Office instructed Musgrave to promote the proposal for union. Consequently, in May 1870, a delegation from British Columbia left for Ottawa to negotiate for admission to the Dominion. The terms desired by British Columbia included a subsidy of approximately \$213,000, a guarantee of a loan of £100,000 to be used for the construction of a dock at Esquimalt, Dominion construction of a wagon road from British Columbia to Fort Garry in three years, and Dominion expenditure of \$100,000 a year upon a railway to the Pacific. The annual grant was to be composed of \$35,000 for government, a population subsidy of \$96,000, and debt interest of \$82,000; the latter two were to



be calculated on an assumed population of 120,000, which was determined by comparing the per capita yield of customs and excise (1) in Canada with the yield in British Columbia. The actual population of the colony was 9,100 whites and 25,000 Indians and Chinese. The Dominion Government was unwilling to accept a population figure of 120,000 and reduced the estimate to 60,000. After this revision, the subsidy total would have been almost \$100,000 less than British Columbia demanded. Therefore, the Dominion Government decided to allow British Columbia \$100,000 a year provided it surrendered a strip of land 20 miles wide on each side of the proposed Pacific railway. The remainder of the terms proposed by the delegation from British Columbia were acceptable to the Dominion. Thereupon, an agreement for federation was drawn up. Subsequently, the Legislature of British Columbia and the Dominion Parliament sanctioned the plan for union.

Consequently, British Columbia became a member of the Dominion in 1871, only a few years after Confederation. The Order-in-Council admitting British Columbia made provision for:

1. A population subsidy of \$48,000 at the rate of 80 cents per head on an assumed population of 60,000 (actually 9,100 whites and 25,000 Indians and Chinese), with increases until the population totalled 400,000;
2. A debt allowance of \$1,666,200, at \$27.77 per capita on the same population; after deduction for a British Columbia debt of about \$1,000,000, the remainder produced annual interest of \$31,000;
3. A grant of \$35,000 for government;
4. A subsidy of \$100,000 a year in return for a strip of land extending 20 miles on each side of the contemplated Pacific railway, - this land was to be turned over to the Dominion;
5. A Dominion guarantee for ten years of a \$100,000 loan, to be employed in the construction of a dock at Esquimalt;
6. A Dominion obligation to begin construction upon a Pacific railway within 2 years and to complete the line within 10 years.

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(1) The terms requested by British Columbia are to be found in Dominion Sessional Papers, 1871, No. 18.





Despite its undertaking concerning the construction of the Pacific railway, the Dominion Government, attacked in the House of Commons, adopted the attitude that these terms meant merely "as soon as possible". Consequently, when by 1873, no actual construction had begun, British Columbia protested that the contractual terms of union had been violated. In reply, the Dominion Government asserted that the Pacific railway was receiving all possible consideration. In the meantime, the Dominion sent an agent "to feel the pulse" of popular feeling concerning this issue in British Columbia; after a survey, he offered the Province a Dominion appropriation of \$1,500,000 yearly for the construction of a railway on Vancouver Island and a wagon trail and telegraph line to the east while work on the Canadian Pacific was in abeyance. However, the Province questioned the authority of the agent to make these proposals and refused the terms. (2)

Eventually the Province took its case to the Imperial Government, but the Colonial Secretary, Lord Carnarvon, asserted that he had no authority to intervene. However, the Secretary intimated that he would be pleased to act as an arbitrator if requested. Both the Dominion and the Province accepted his proposal and submitted their arguments. The Dominion insisted that the terms of union were only directory and not mandatory and, since surveying had been started upon the line, construction had begun. British Columbia asserted that the terms of union were not being fulfilled. Finally, in November, 1874, Lord Carnarvon suggested that the Dominion build a section of railway on Vancouver Island immediately, that the surveying parties be increased, that the wagon road and telegraph line be dropped, and that the Dominion spend at least \$2,000,000 a year on the Canadian Pacific which should be completed by January 1891. The Dominion and the Province agreed to this proposal and the Dominion Parliament passed legislation to make these terms effective. (3)

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(2) Dominion Sessional Papers, 1885, Vol. 10, No. 34, pp. 480-499.

(3) Ibid., pp. 489-539.



In 1884 a final settlement of all issues was agreed upon by the Dominion and British Columbia. British Columbia assigned 3,500,000 acres of land in the Peace River area to the Dominion as compensation for deficiencies in the original grant along the Canadian Pacific Railway. The Province also definitely dropped all claims for non-completion of the railway before 1882.<sup>(4)</sup> Although the controversy over the railway construction never resulted in a request for an increased subsidy, it was so related to the financial terms of union that if it had not been settled it would have resulted in some financial claim for non-fulfilment. The settlement of 1884 also included a Dominion subsidy of \$750,000 to the Vancouver Island Railway Company for the construction of a branch line from Nanaimo to Esquimalt in return for 1,900,000 acres of land to assist in financing the project.<sup>(5)</sup>

In 1873, British Columbia urged the Dominion to advance \$250,000 for further construction upon the Esquimalt dock. Instead of guaranteeing the interest upon the contemplated loan of £100,000, the Dominion decided to share the cost of the dock up to a total of \$250,000. This provision was embodied in an Act of 1874.<sup>(6)</sup> The same Act authorized the Province to borrow from its debt balance with the Dominion for the construction of local works with the privilege of repayment. British Columbia borrowed a total of \$339,500 in 1874, of which \$150,000 was considered by the Province to be for the Esquimalt dock which the Dominion had promised to subsidize. As a result, the Province objected when the Dominion Government deducted this sum from its debt allowance in 1876. After continued controversy as to whether the \$150,000

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(4) 47 Victoria, c.6.

(5) Ibid. The Dominion had not constructed the railway on Vancouver Island, as suggested by Lord Carnarvon in 1874, the bill having been defeated in the Senate.

(6) 37 Victoria, c.17.





had been a grant or a loan, the Dominion agreed to provide  
\$250,000 as the work on the dock progressed.<sup>(7)</sup> However, even  
with this aid the Province could not complete the dock.  
Consequently, in 1884, when all issues between British Columbia  
and the Dominion were settled, the Dominion Government agreed  
to take over the dock for completion and administration and to  
pay the Province \$384,500, representing a settlement grant of  
\$250,000 (authorized in 1874 and 1880) and expenditures of<sup>(8)</sup>  
\$134,500 by British Columbia upon the dock prior to 1884.

In 1873, when the excess debt of Ontario and Quebec  
was absorbed by the Dominion, the debt allowance of British  
Columbia was increased by \$280,000,<sup>(9)</sup> and in 1884, when these  
increases were reverted to 1867 with interest, British Columbia  
obtained an additional allowance of \$83,100.<sup>(10)</sup>

British Columbia did not make its first appeal to  
the Dominion for financial aid until 1901. Although the Province  
had been invited to participate in the Provincial Conference of  
1887, the Government declined because it had no differences with  
the Dominion which could not be settled by negotiation. Conse-  
quently, the resolutions of the Conference did not receive the  
approval of British Columbia. In 1901, the first British Columbia  
delegation seeking "better terms" interviewed the Dominion  
Government. The arguments presented to the Dominion Government  
constitute the basic claims which appeared in the memorials  
tendered during the period 1901-14 by delegations in 1903, 1905,  
1911, 1914, and before the Provincial Conference in 1906.

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(7) 43 Victoria, c. 15.

(8) 47 Victoria, c. 6.

(9) 36 Victoria, c. 30.

(10) 47 Victoria, c. 4.



The complaints which British Columbia cited as grounds for better terms can be grouped in four categories:

1. The physical character of the Province made the cost of government higher than in other provinces, for not only was the area sparsely settled but mountainous districts added to the costs of administration. Comparative per capita cost of the various provinces in 1900 were: British Columbia, \$11.62; Manitoba, \$4.00; Ontario, \$1.85; Quebec, \$2.70; New Brunswick, \$2.40; Nova Scotia, \$2.04; and Prince Edward Island, \$3.00.
2. The distance of British Columbia from the commercial, industrial, and administrative centres of eastern Canada resulted in a higher cost of goods consumed in the Province.
3. The non-industrial character of the Province caused a larger percentage of goods to be imported for consumption and thereby British Columbia contributed to the federal revenue at a much greater per capita ratio than the other provinces. One-fifty-fifth of the population of Canada had provided one-twentieth of the revenue over a period of thirty years; the per capita contribution to the Dominion revenue by all the provinces in 1897 was \$8.93 while that of British Columbia was \$25.67; the custom revenues from the same sources were \$6.65 and \$21.02 respectively.
4. The disadvantageous situation of the Province in regard to markets forced its products to be sold abroad in competition with foreign goods, while the products of other provinces received tariff protection because they were sold within Canada. British Columbia suggested that its claims be arbitrated by a commission of three, one appointed by the Dominion, one by the Province, and the third by the two previously nominated, or failing that by the Colonial Secretary.<sup>(11)</sup>

These claims received no attention from the Dominion Government and the delegation returned empty-handed.

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(11) Dominion Sessional Papers, 1903, Vol. 13, No. 68, pp. 1. ff.





British Columbia was unable to participate in the Provincial Conference in 1902 because of a change in government. When the resolutions of the Conference were circulated for approval by the various provincial legislatures the Prime Minister of British Columbia, the Hon. E. G. Prior, stated that his Province was glad to concur with the proposal, but the geographical difficulties, which resulted in a much greater per capita cost of government in British Columbia than in any other province, required special attention. He asserted that a precedent had been established when an extra grant had been given Nova Scotia in 1869 and British Columbia desired the aid of the other provinces in its (12) quest for special consideration.

In 1903, a delegation from British Columbia approached the Dominion again. In addition to the claims advanced in 1901, the Province added the argument that if Nova Scotia in 1869 were entitled to an increased subsidy, then British Columbia was in 1903, because two of the grounds upon which Province sought redress were identical to those recognized in the submission of Nova Scotia, viz., inadequate sources of local revenue, and exceptional physical (13) environment. Again the Dominion refused to fulfill the wishes of British Columbia.

Inasmuch as the Dominion had rejected its appeals, British Columbia decided to present its case to the Dominion-Provincial Conference of 1906. The Hon. Richard McBride, the Premier of the Province, submitted a memorial to the Conference in which he asserted that any changes similar to those proposed in 1887 and 1902, whereby the population subsidy was to be paid at 80 cents per head up to 2,500,000 inhabitants and thereafter at 60 cents and the grant for government was to be determined on a population scale, would leave British Columbia in a more unfavourable position than ever because: (1) the Province would be compelled to pay an undue proportion of the amount of subsidy

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(12) Ibid., pp. 13-18.

(13) Ibid., pp. 15-24.



increases, since the inhabitants of British Columbia contributed more to the Dominion on a per capita basis than the residents of any other Province, and (2) the proposed increases in subsidies were based upon population which took no account of the exceptional conditions existing in British Columbia. Thus, British Columbia was bound to lose unless it were given special consideration.

He attempted to prove that the British Columbia subsidy terms were inequitable inasmuch as its annual subsidy at the maximum would be less than \$500,000 while those of Saskatchewan and Alberta would be \$2,250,000. British Columbia urged the Conference to recommend the appointment of a commission of three to investigate its claims for special terms. After due deliberation, the Conference decided that a special commission was unnecessary and instead recommended an extra annual subsidy of \$100,000 for ten years. This award was insufficient in McBride's opinion and he withdrew from the Conference after stating that his Province would approach the Imperial authorities to secure the equitable treatment which the Dominion denied.<sup>(14)</sup>

The Conference, with British Columbia absent, recommended a revision of all provincial subsidies along the lines laid down in 1887 and 1902 with a special grant for British Columbia of \$100,000 for ten years. This settlement was to be final and unalterable. Every provincial Legislature except that of British Columbia favoured the proposed plan. British Columbia claimed that inasmuch as the special sum was inadequate for its disabilities the finality clause would prohibit the Province from any future demands upon the Dominion. Despite the non-approval of British Columbia, the Dominion Government proceeded with the revision and secured parliamentary assent to an Address to the Imperial Government for an amendment of the British North America Act. The Hon. Mr. McBride went to London to protest to the Imperial authorities

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(14) Ibid., 1907, Vol. 12, No.29a, pp.10-38.





against what he regarded as unfair treatment for his Province. The Imperial Government, however, enacted the statute forwarded by the Dominion Government; it did, however, remove the finality clause from the body of the Act to the schedule. The necessary legislation was passed by the British Parliament in 1907.<sup>(15)</sup> British Columbia was gratified at the deletion of the finality clause and the Act was dealt with by the Executive Council of the Province on March 19, 1908, in the following language:

"Whereas said 'British North America Act, 1907' does not make final and unalterable said amended scale of payments to the provinces, and cannot affect the right of future negotiations between the province and the Dominion, with reference to said recognized special claim of British Columbia:

"Therefore, it is resolved, that this house adhering to the position that said grant of one hundred thousand dollars annually for ten years is inadequate, affirms its right to further urge on the Dominion Government that steps be taken to bring about a fair and adequate settlement of the recognized claim of British Columbia for special treatment at the hands of Canada....."(16)

The revised subsidies of 1907 increased the British Columbia subsidy for government from \$35,000 to \$150,000, and added an extra grant of \$100,000 for ten years; thus, the subsidy total was increased by 70%.

In 1911, a delegation from British Columbia again visited Ottawa to press the aforementioned claims for special terms upon the Dominion. After continued communication concerning the matter, the Dominion decided to accede to the wish of British Columbia for the appointment of a Commission of inquiry, and in February, 1913, an Order in Council was issued announcing the selection of Zebulon A. Lash and Ernest V. Bodwell as representatives of the Dominion and British Columbia respectively. These two were to select the third member of the Commission. However, the World War intervened and the matter was shelved for more important events. As a consequence, the Commission never functioned and no decision was ever delivered.<sup>(17)</sup> Nevertheless, British Columbia filed the brief

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(15) 7 Edward VII, c.11.

(16) Dominion Sessional Papers, 1913, Vol. 27, No. 67h, pp. 2-4.

(17) Ibid., pp.1-4; Ibid., Vol. 28, No.191 and 191a, p. 1 ff.



prepared for the Commission with the Dominion Government in 1914 for purposes of record. In October 1913, shortly after the appointment of the two members of the British Columbia Commission, a Provincial Conference was held. This body proposed an additional subsidy amounting to 10% of the annual Dominion customs and excise collections. British Columbia participated in this assembly but reserved its particular claims for presentation to the Commission of inquiry. The Dominion Government took no action to implement the recommendation of the Provincial Conference of 1913.

Since the introduction of conditional subsidies in 1912, British Columbia has received the amounts stated in the accompanying table.

Although the quest for a settlement of accounts with the Dominion had been delayed indefinitely by the World War, the Province did not desist in its efforts. When the Prairie Provinces petitioned the Dominion for the return of their public land, British Columbia also urged that the land in the Railway Belt and the Peace River Block which had been given over to aid the construction of the Canadian Pacific Railway be reconveyed to the Province. There was sporadic correspondence concerning this matter between the Dominion and the Province from 1918. Eventually in 1927, after the presentation of a brief for better terms, the question of British Columbia's claim for possession of the Railway Belt and the Peace River District was submitted to a Commission of one, Mr. Justice Martin of Saskatchewan. The fact that this land had been turned over to the Dominion for a particular purpose put the claim in a different category from that of the Prairie Provinces. After an attentive investigation, Mr. Justice Martin could discover no legal or contractual reasons to support British Columbia's ownership, but, from the standpoint of equity, he recommended that the Dominion return the unalienated land to the Province. Action upon this recommendation was delayed until settlements had been arranged with the Prairie Provinces.





Finally, in 1930, the land was reconveyed and an agreement was made for the continuance of the \$100,000 land subsidy.<sup>(18)</sup>

Nevertheless this issue is still unsettled, British Columbia desiring an investigation to determine whether the Province should receive compensation for the land alienated by the Dominion.

Since the World War, British Columbia has made various attempts to have its subsidy revised by the Dominion. At the Conference on Taxation held in Ottawa in 1924, the Province reiterated its demands for a special subsidy and registered a complaint concerning the federal invasion of the field of direct taxation, which, it pointed out, diminished the potentialities of the provincial tax resources. In 1927, a detailed brief was filed with the Dominion Government concerning the disabilities of British Columbia within Confederation. These protests were drawn to the attention of the Dominion again in 1934, 1935 and 1936, when the Province submitted briefs to the Dominion Government outlining its claims and protests.

The arguments presented in these briefs can be classified in four categories:

1. The Province continues to suffer from the disabilities arising from the topography of the country, whereby the cost of administration is particularly high.
2. In comparison with other provinces, British Columbia has not received equal treatment in the matter of subsidies. On the basis of customs and excise revenue in 1870, British Columbia should have entered the union with a population figure of 120,000 instead of 60,000. Under terms of this nature, the Province would have received a population subsidy of \$96,000 instead of \$48,000 and a debt allowance of \$3,300,000 instead of \$1,700,000. When Alberta and

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(18) 20-21 George V, c. 37.



Saskatchewan were admitted to the union they were allowed populations of 250,000 while actually the populations in 1901 were 91,279 and 73,022 respectively. <sup>(19)</sup> Generosity of this type had been refused to British Columbia in 1870; British Columbia suffered badly in the matter of special subsidies and received much less per capita than any of the other provinces. During the period from 1870 to 1934, the Dominion collected \$442,000,000 from the customs and excise sources turned over by British Columbia in 1870 whereas the Province itself secured a subsidy of only \$27,500,000.

3. The entrance of the Dominion into the field of direct taxation had brought a great hardship upon the people of British Columbia because the Province employs an income tax to raise much of its revenue.

4. When the railway lands in the Peace River Block were returned to the Province, no Commission was appointed, as in the case of the Prairie Provinces, to determine any compensation which might be due for Dominion alienation of land and for provincial expenditure in the development of the area. <sup>(20)</sup>

In 1934 after the presentation of the British Columbia brief, the Dominion Government decided to award the Province an interim payment of \$750,000 a year pending a complete examination of the grievances of British Columbia. When no commission of inquiry was appointed, the Province approached the Dominion Government in 1935 and 1936; briefs were filed reiterating the various claims and calling attention to the promise of an investigation.

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(19) The census of 1906 indicated that the 1905 estimate of 250,000 was reasonably accurate for Saskatchewan, which had a population of 257,763 in 1906; the Alberta census of 1906 showed 185,195.

(20) British Columbia's claim for Readjustment of Terms of Union, 1935, pp. 17-31.





There is one other factor in the subsidy relationship between British Columbia and the Dominion which has not yet been discussed. In 1920, the Dominion began payments to municipalities for relief purposes; these allowances were neither conditional subsidies nor unconditional grants. Municipalities in British Columbia received the following sums: 1920-21, \$91,500; 1921-22, \$103,800; 1922-23, \$228,100 - a total of \$423,400. The depression which began in 1929 brought to the fore another problem of unemployment relief. Again the Dominion assumed a share of the cost of relief; however, all Dominion payments were made directly to the province for distribution. Thus, a new subsidy relationship was established between the Dominion and the provinces. Since 1930, British Columbia obtained the following relief grants from the Dominion:

1930-31.....	\$ 259,000	
1931-32.....	3,428,000	
1932-33.....	4,079,000	
1933-34.....	3,398,000	
1934-35.....	3,176,000	
1935-36.....	2,277,000	
1936-37.....	<u>3,237,000</u>	(21)
Total	<u>\$19,854,000</u>	

As of March 31, 1937, British Columbia received the following annual subsidies from the Dominion:

Population subsidy.....	\$ 555,400	(22)
Interest on debt allowance.....	29,200	
Grant for government.....	190,000	(23)
Land Subsidy.....	100,000	
Special grant.....	<u>750,000</u>	
Total	<u>\$1,624,600</u>	

(21) In addition British Columbia obtained net loans, particularly for relief, from the Dominion of:

1931-32.....	\$ 4,813,000
1932-33.....	913,000
1933-34.....	1,322,000
1934-35.....	7,967,000
1935-36.....	12,558,000
1936-37.....	<u>3,972,000</u>
Total	<u>\$31,545,000</u>

(22) The population subsidy automatically increased in the following years: 1881, \$30,500; 1901, \$64,400; 1911, \$171,100; 1921, \$105,700; and 1931, \$135,700.

(23) The grant for government was raised from \$150,000 to \$180,000 in 1911, and to \$190,000 in 1921.



From 1870 to March, 1937, British Columbia obtained total payments of \$65,200,000 from the Dominion, composed of \$32,300,000 from subsidies, \$13,100,000 from conditional subsidies, and \$19,900,000<sup>(24)</sup> from relief grants.<sup>(25)</sup>

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(24) This total does not include \$423,400 paid by the Dominion to Municipalities during 1920-23.

(25) The amounts paid by the Dominion for the Esquimalt Dock are not included.





CONDITIONAL SUBSIDY PAYMENTS TO BRITISH COLUMBIA

<u>Year</u>	<u>Agricultural Instruction Act</u>	<u>Coordination of Employment Offices</u>	<u>Canada Highways Act</u>	<u>Technical Education Act</u>	<u>Eradication of Venereal Diseases</u>	<u>Old Age Pensions</u>
1912-13	\$ 27,335					
1913-14	47,335					
1914-15	52,799					
1915-16	58,266					
1916-17	63,733					
1917-18	63,949	\$ 3,083			\$ 7,314	
1918-19	74,449	24,549		\$ 19,408	14,628	
1919-20	69,199	34,212	\$ 86,447	29,134	14,628	
1920-21	69,199	31,125	\$ 367,026	47,904		
1921-22	69,199					
1922-23	69,199	30,740	662,911	34,932	14,628	
1923-24	61,843	30,266	135,571	53,535	10,760	
1924-25		20,303		40,860	8,070	
1925-26		19,610		53,123	6,874	
1926-27		19,594		56,627	6,874	
1927-28		19,266		59,355	5,798	\$ 131,452
1928-29		19,835		169,637	5,798	\$ 399,341
1929-30		19,508		68,564	5,798	357,801
1930-31		18,369			5,798	580,841
1931-32		17,373			5,798	1,032,841
1932-33		14,670				1,176,243
1933-34		12,227				1,304,144
1934-35		12,163				1,478,314
1935-36		13,646				1,672,831
1936-37		14,532				1,823,268
TOTAL	\$7,26,505	\$375,069	\$1,251,955	\$633,081	\$112,768	\$9,957,075



STATISTICAL APPENDIX

SUBSIDIES AND GRANTS PAID TO PROVINCES SINCE CONFEDERATION

Table I SUMMARY OF DOMINION-PROVINCIAL GRANTS AND SUBSIDIES

Fiscal Years	Statutory Subsidies	Special Grants \$000	Conditional Grants: Ex- Unemployment Relief \$000	Unemploy- ment Relief \$000	Total \$000
1867-68 - 1911-12	203,521,492				203,521
1912-13	13,211,800		500		13,712
1913-14	11,280,469		700		11,980
1914-15	11,451,673		784		12,236
1915-16	11,451,673		885		12,337
1916-17	11,469,148		974		12,443
1917-18	11,369,148		1,053		12,422
1918-19	11,327,236		985		12,313
1919-20	11,490,860		1,746		13,237
1920-21	11,490,860		2,564	342	14,397
1921-22	12,211,924		5,641	498	18,351
1922-23	12,207,313		8,108	944	21,260
1923-24	12,386,136		6,228	4	18,618
1924-25	12,281,391		4,064		16,346
1925-26	12,375,129		2,882		15,257
1926-27	12,516,741		1,683	77	14,277
1927-28	12,516,741	1,600	2,593		16,710
1928-29	12,553,725	1,600	2,256		16,410
1929-30	12,496,959	1,600	2,205		16,301
1930-31	17,435,736	1,600	6,306	3,160	28,502
1931-32	13,694,970	1,600	10,562	33,531	59,388
1932-33	13,677,384	1,600	11,863	33,809	60,949
1933-34	13,727,565	1,600	12,591	28,020	55,939
1934-35	13,768,953	2,350	15,181	43,368	74,668
1935-36	13,768,953	3,225	17,012	40,667	74,673
1936-37	13,735,196	3,225	21,374	51,517	89,851
1937-38	13,735,337	7,475			
TOTAL	533,154,515	27,475	140,740	235,937	916,848
To Fiscal Year	(1937-38	(1937-38)	(1936-37)	(1936-37)	(1936-37)





SUBSIDIES AND GRANTS PAID TO PROVINCES SINCE CONFEDERATION

TABLE II. SUBSIDIES TO PROVINCES - PAYMENTS FOR EACH YEAR FROM 1867 TO 1938

Fiscal Year	Ontario	Quebec	Nova Scotia	New Brunswick	Manitoba	British Columbia	Prince Edward Island	Saskatchewan	Alberta	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1867-68...	675,364	913,420	324,686	314,638						2,228,107
1868-69...	846,704	979,802	462,907	314,638						2,604,050
1869-70...	971,203	859,626	443,139	314,638						2,588,605
1870-71...	1,035,030	800,000	408,068	314,638	67,205					2,624,940
1871-72...	1,036,204	800,000	471,085	341,620	67,205	214,000				2,930,113
1872-73...	1,022,977	800,000	473,307	341,622	67,205	216,290				2,921,400
1873-74...	1,196,873	959,253	549,841	465,288	70,368	230,294	280,841			3,752,757
1874-75...	1,196,873	959,253	549,589	513,638	65,412	225,050	241,147			3,750,962
1875-76...	1,196,873	959,253	534,483	512,537	90,972	218,247	177,990			3,690,355
1876-77...	1,196,873	959,253	520,644	511,329	90,000	208,217	169,535			3,655,851
1877-78...	1,196,873	959,253	418,701	440,123	90,000	208,094	159,764			3,472,808
1878-79...	1,196,873	959,253	399,926	431,171	90,000	208,094	157,449			3,442,764
1879-80...	1,196,873	959,253	378,630	428,010	105,653	208,086	154,342			3,430,846
1880-81...	1,196,873	959,253	405,082	427,349	105,653	208,019	153,289			3,455,518
1881-82...	1,196,873	959,253	384,146	455,410	163,071	207,366	164,881			3,530,999
1882-83...	1,196,873	959,253	393,753	456,971	227,153	207,996	164,674			3,606,673
1883-84...	1,196,873	959,253	392,958	454,972	227,153	207,996	164,511			3,603,714
1884-85...	1,339,287	1,086,713	432,620	485,159	229,859	212,151	173,537			3,959,327
1885-86...	1,339,287	1,086,713	432,750	495,012	443,075	212,151	173,537			4,182,526
1886-87...	1,339,287	1,086,713	432,882	488,909	435,861	212,151	173,537			4,169,341
1887-88...	1,339,287	1,086,713	432,873	488,357	435,595	212,151	193,537			4,188,514
1888-89...	1,268,080	1,022,983	432,867	486,229	435,596	212,151	193,521			4,051,428
1889-90...	1,196,873	959,253	432,831	484,315	435,596	212,151	183,903			3,904,922
1890-91...	1,196,873	959,253	432,823	483,546	435,596	212,151	183,515			3,903,757
1891-92...	1,196,873	959,253	432,819	483,575	437,607	242,241	183,545			3,935,914
1892-93...	1,196,873	959,253	432,815	483,564	437,594	242,241	183,424			3,935,765
1893-94...	1,339,287	1,086,713	432,814	483,570	437,601	243,585	183,084			4,206,655
1894-95...	1,339,287	1,086,713	432,813	483,567	482,593	242,689	183,011			4,250,674





STATISTICAL APPENDIX

SUBSIDIES AND GRANTS PAID TO PROVINCES SINCE CONFEDERATION

TABLE II. SUBSIDIES TO PROVINCES - PAYMENTS FOR EACH YEAR FROM 1867 TO 193E (Continued)

Fiscal Year	Ontario	Quebec	Nova Scotia	New Brunswick	Manitoba	British Columbia	Prince Edward Island	Saskatchewan	Alberta	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1895-96....	1,339,287	1,086,713	432,812	483,556	467,596	242,689	183,011			4,235,664
1896-97....	1,339,287	1,086,713	432,809	483,556	470,336	242,689	182,668			4,238,059
1897-98....	1,339,287	1,086,713	432,808	483,538	470,336	242,689	182,000			4,237,372
1898-99....	1,339,287	1,086,713	432,807	483,520	483,687	242,689	181,932			4,250,636
1899-1900..	1,339,287	1,086,713	432,807	483,492	483,687	242,689	181,932			4,250,608
1900-01....	1,339,287	1,086,713	432,807	483,492	483,687	242,689	181,932			4,250,607
1901-02....	1,339,287	1,086,713	432,806	491,377	532,905	307,077	211,932			4,402,098
1902-03....	1,339,287	1,086,713	432,806	491,361	533,327	307,077	211,932			4,402,503
1903-04....	1,339,287	1,086,713	432,806	491,361	533,116	307,077	211,932			4,402,292
1904-05....	1,339,287	1,086,713	432,806	491,361	646,863	307,077	211,932			4,516,038
1905-06....	1,339,287	1,086,713	432,806	491,361	608,947	307,077	211,932	1,124,125	1,124,125	6,726,373
1906-07....	1,339,287	1,086,713	432,806	491,361	621,497	307,077	211,932	1,130,335	1,124,125	6,745,134
1907-08....	2,128,772	1,686,579	610,465	621,361	751,497	522,077	281,932	1,217,634	1,212,458	9,032,775
1908-09....	2,128,772	1,686,579	610,465	621,361	751,497	522,077	281,932	1,260,335	1,254,125	9,117,143
1909-10....	2,128,772	1,686,579	610,460	621,361	881,622	522,077	281,932	1,355,420	1,273,165	9,361,388
1910-11....	2,128,772	1,686,579	610,460	621,361	838,247	522,077	281,932	1,229,975	1,173,069	9,092,472
1911-12....	2,396,429	1,971,705	636,670	637,975	833,642	713,781	281,932	1,548,189	1,260,722	10,281,045
1912-13....	2,396,328	1,967,556	636,666	637,977	3,643,910	732,489	381,932	1,555,453	1,259,489	13,211,800
1913-14....	2,396,379	1,969,630	636,667	637,976	1,478,912	723,135	381,932	1,631,248	1,424,890	11,280,469
1914-15....	2,396,379	1,969,630	636,667	637,976	1,406,204	723,135	381,932	1,710,675	1,589,075	11,451,673
1915-16....	2,396,379	1,969,630	636,667	637,976	1,406,204	723,135	381,932	1,710,675	1,589,075	11,451,673
1916-17....	2,396,379	1,969,630	636,667	637,976	1,423,679	723,135	381,932	1,710,675	1,589,075	11,469,148
1917-18....	2,396,379	1,969,630	636,667	637,976	1,423,679	623,135	381,932	1,710,675	1,589,075	11,369,148
1918-19....	2,396,379	1,969,630	636,667	637,976	1,447,335	623,135	381,932	1,680,077	1,554,105	11,327,236
1919-20....	2,396,379	1,969,630	636,667	637,976	1,470,991	623,135	381,932	1,753,075	1,621,075	11,490,860





STATISTICAL APPENDIX

SUBSIDIES AND GRANTS PAID TO PROVINCES SINCE CONFEDERATION

TABLE II. SUBSIDIES TO PROVINCES - PAYMENTS FOR EACH YEAR FROM 1867 TO 1938 (Continued)

Fiscal Year	Ontario	Quebec	Nova Scotia	New Brunswick	Manitoba	British Columbia	Prince Edward Island	Saskatchewan	Alberta	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1920-21..	2,396,372	1,969,630	636,667	637,976	1,470,991	623,135	381,932	1,753,075	1,621,075	11,490,860
1921-22..	2,642,612	2,256,420	661,866	666,766	1,470,991	738,817	381,932	1,763,883	1,628,638	12,211,924
1922-23..	2,642,612	2,256,420	661,866	666,766	1,466,380	738,817	381,932	1,763,883	1,628,638	12,207,313
1923-24..	2,642,612	2,256,420	661,866	666,766	1,485,119	738,817	381,932	1,901,069	1,651,537	12,386,136
1924-25..	2,642,612	2,256,420	661,854	666,766	1,501,551	738,817	381,932	1,757,005	1,674,435	12,281,391
1925-26..	2,642,612	2,256,420	661,841	666,766	1,501,551	738,817	381,932	1,850,755	1,674,435	12,375,129
1926-27..	2,642,612	2,256,420	661,841	666,766	1,491,836	738,817	381,932	2,032,575	1,643,942	12,516,741
1927-28..	2,642,612	2,256,420	661,841	666,766	1,491,836	738,817	381,932	2,032,575	1,643,942	12,516,741
1928-29..	2,642,612	2,256,420	661,841	666,766	1,500,214	738,817	381,932	2,047,935	1,657,189	12,553,725
1929-30..	2,642,612	2,256,420	661,841	666,766	1,508,591	738,817	381,932	2,063,295	1,576,685	12,496,959
1930-31..	2,642,612	2,256,420	661,841	666,766	6,478,619	738,817	381,932	1,938,295	1,670,435	17,435,736
1931-32..	2,941,424	2,592,014	661,841	693,040	1,694,195	874,561	381,932	2,112,803	1,743,159	13,694,970
1932-33..	2,941,424	2,592,014	644,255	693,040	1,694,195	874,561	381,932	2,112,803	1,743,159	13,677,384
1933-34..	2,941,424	2,592,014	653,048	693,040	1,705,340	874,561	381,932	2,128,889	1,757,317	13,727,565
1934-35..	2,941,424	2,592,014	653,048	693,040	1,716,484	874,561	381,932	2,144,975	1,771,475	13,768,953
1935-36..	2,941,424	2,592,014	653,048	693,040	1,716,484	874,561	381,932	2,144,975	1,771,475	13,768,953
1936-37..	2,941,424	2,592,014	653,048	693,040	1,703,023	874,561	381,932	2,120,084	1,776,071	13,735,196
1937-38..	2,941,424	2,592,014	653,048	693,040	1,703,091	874,561	381,932	2,120,095	1,776,130	13,735,337
Total....	128,410,789	107,276,380	37,463,891	38,617,872	63,567,520	30,951,914	17,701,529	58,117,534	51,047,086	533,154,515

Source: TABLES II - VI - Department of Finance - Federal Subsidies and Grants to Provinces of Canada, 1937.



TABLE III. ALLOWANCES FOR GOVERNMENT AND LEGISLATURE

Annual rate for period	Ontario July 1, 1867	Quebec July 1, 1867	Nova Scotia July 1, 1867	New Brunswick July 1, 1867	Manitoba July 1, 1870	British Columbia July 1, 1873	Prince Edward Island			Saskatchewan Sept. 1, 1905	Alberta Sept. 1, 1905	Total for period
							July 1, 1873	July 1, 1873	Sept. 1, 1905			
July 1, 1867 to June 30, 1870	80,000	70,000	60,000	50,000								780,000
July 1, 1870 to June 30, 1871	80,000	70,000	60,000	50,000	30,000							290,000
July 1, 1871 to June 30, 1873	80,000	70,000	60,000	50,000	30,000	35,000						650,000
July 1, 1873 to Dec. 31, 1881	80,000	70,000	60,000	50,000	30,000	35,000	30,000					3,017,500
Jan. 1, 1882 to June 30, 1905	80,000	70,000	60,000	50,000	50,000	35,000	30,000					8,812,500
July 1, 1905 to June 30, 1907	80,000	70,000	60,000	50,000	50,000	35,000	30,000	30,000	50,000	50,000		950,000
July 1, 1907 to June 30, 1908	240,000	240,000	190,000	180,000	180,000	150,000	100,000		137,299	138,334		1,555,633
July 1, 1908 to June 30, 1909	240,000	240,000	190,000	180,000	180,000	150,000	100,000	100,000	180,000	180,000		1,640,000
July 1, 1909 to June 30, 1911	240,000	240,000	190,000	180,000	190,000	150,000	100,000	100,000	180,000	180,000		3,300,000
July 1, 1911 to June 30, 1912	240,000	240,000	190,000	180,000	195,000	180,000	100,000		224,368	213,333		1,762,701
July 1, 1912 to Dec. 31, 1913	240,000	240,000	190,000	180,000	190,000	180,000	100,000	100,000	190,000	180,000		2,535,000
Jan. 1, 1914 to June 30, 1921	240,000	240,000	190,000	180,000	190,000	180,000	100,000	100,000	190,000	190,000		12,750,000
July 1, 1921 to Dec. 31, 1923	240,000	240,000	190,000	180,000	190,000	190,000	100,000		190,000	190,000		4,275,000
Jan. 1, 1924 to June 30, 1931	240,000	240,000	190,000	180,000	190,000	190,000	100,000	100,000	220,000	190,000		13,050,000
July 1, 1931 to June 30, 1938	240,000	240,000	190,000	190,000	190,000	190,000	100,000	100,000	220,000	190,000		12,250,000
Total Paid	10,340,000	10,240,000	8,290,000	7,650,000	7,495,000	6,890,000	4,120,000	6,376,667	5,916,667	67,618,334		





TABLE IV. ALLOWANCES PER HEAD OF POPULATION

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Annual Rate for period	Ontario July 1, 1867	Quebec July 1, 1867	Nova Scotia July 1, 1867	New Brunswick July 1, 1867	Manitoba July 1, 1870	British Columbia July 1, 1871	Prince Edward Island July 1, 1873	Saskat- chewan Sept. 1, 1905	Alberta Sept. 1, 1905	Total
July 1, 1867 to										
June 30, 1870	1,116,873	889,253	264,686	201,638						7,417,350
July 1, 1870 to										
June 30, 1871	1,116,873	889,253	264,686	201,638	13,600					2,486,050
July 1, 1871 to										
June 30, 1873	1,116,873	889,253	310,240	228,475	13,600	48,000				5,212,882
July 1, 1873 to										
June 30, 1881	1,116,873	889,253	310,240	228,475	13,600	48,000	75,217			21,453,264
July 1, 1881 to										
Dec. 31, 1881	1,116,873	889,253	320,000	256,986	13,600	48,000	87,142			1,365,927
Jan. 1, 1882 to										
June 30, 1891	1,116,873	889,253	320,000	256,986	120,000	48,000	87,142			26,963,413
July 1, 1891 to										
June 30, 1894	1,116,873	889,253	320,000	257,010	122,005	78,538	87,262			8,612,823
July 1, 1894 to										
June 30, 1895	1,116,873	889,253	320,000	257,010	166,997	78,538	87,262			2,915,933
July 1, 1895 to										
June 30, 1896	1,116,873	889,253	320,000	257,010	152,000	78,538	87,262			2,900,936
July 1, 1896 to										
June 30, 1901	1,116,873	889,253	320,000	257,010	154,740	78,538	87,262			14,518,380
July 1, 1901 to										
June 30, 1904	1,116,873	889,253	320,000	264,896	204,167	142,926	87,262			9,076,131
July 1, 1904 to										
June 30, 1905	1,116,873	889,253	320,000	264,896	317,915	142,926	87,262			3,139,125
July 1, 1905 to										
June 30, 1906	1,116,873	889,253	320,000	264,896	280,000	142,926	87,262	200,000		3,501,210
July 1, 1906 to										
June 30, 1907	1,116,873	889,253	320,000	264,896	292,550	142,926	87,262	206,210		3,519,970
July 1, 1907 to										
June 30, 1908	1,746,358	1,319,118	367,659	264,896	292,550	142,926	87,262	206,210	200,000	4,626,979
July 1, 1908 to										
June 30, 1909	1,746,358	1,319,118	367,659	264,896	292,550	142,926	87,262	206,210	200,000	4,626,979
July 1, 1909 to										
June 30, 1910	1,746,358	1,319,118	367,659	264,896	412,675	142,926	87,262	301,295	219,040	4,861,229



TABLE IV. ALLOWANCES PER HEAD OF POPULATION (CONTINUED)

Annual Rate for period	Ontario July 1, 1867	Quebec July 1 1867	Nova Scotia July 1 1867	New Brunswick July 1 1867	Manitoba July 1 1870	British Columbia July 1 1871	Prince Edward Island July 1 1873	Saskat- chewan Sept. 1 1905	Alberta Sept. 1 1905	Total
July 1, 1910 to June 30, 1911	1,746,358	1,319,118	367,659	264,896	369,300	142,926	87,262	269,600	212,694	4,779,813
July 1, 1911 to June 30, 1912	2,013,964	1,602,170	393,870	281,511	359,696	313,984	87,262	355,946	267,014	5,675,417
July 1, 1912 to June 30, 1913	2,013,964	1,602,170	393,870	281,511	369,100	313,984	87,262	397,578	299,114	5,758,553
July 1, 1913 to June 30, 1914	2,013,964	1,602,170	393,870	281,511	397,458	313,984	87,262	473,372	365,466	5,929,057
July 1, 1914 to June 30, 1916	2,013,964	1,602,170	393,870	281,511	425,613	313,984	87,262	552,800	431,200	12,204,748
July 1, 1916 to June 30, 1918	2,013,964	1,602,170	393,870	281,511	443,088	313,984	87,262	552,800	431,200	12,239,698
July 1, 1918 to June 30, 1919	2,013,964	1,602,170	393,870	281,511	466,744	313,984	87,262	522,202	396,230	6,077,937
July 1, 1919 to June 30, 1921	2,013,964	1,602,170	393,870	281,511	490,400	313,984	87,262	595,200	463,200	12,483,122
July 1, 1921 to June 30, 1922	2,260,197	1,888,959	419,070	310,301	490,400	419,666	87,262	606,008	470,763	6,952,626
July 1, 1922 to June 30, 1923	2,260,197	1,888,959	419,070	310,301	485,789	419,666	87,262	606,008	470,763	6,948,015
July 1, 1923 to June 30, 1924	2,260,197	1,888,959	419,070	310,301	504,527	419,666	87,262	634,443	493,661	7,018,088
July 1, 1924 to June 30, 1926	2,260,197	1,888,959	419,070	310,301	520,960	419,666	87,262	662,880	516,560	14,171,710
July 1, 1926 to June 30, 1928	2,260,197	1,888,959	419,070	310,301	511,245	419,666	87,262	657,200	486,067	14,079,934
July 1, 1928 to June 30, 1929	2,260,197	1,888,959	419,070	310,301	519,622	419,666	87,262	672,560	499,314	7,076,951
July 1, 1929 to June 30, 1930	2,260,197	1,888,959	419,070	310,301	528,000	419,666	87,262	687,920	512,560	7,113,935
July 1, 1930 to June 30, 1931	2,260,197	1,888,959	419,070	310,301	528,000	419,666	87,262	687,920	512,560	7,113,935
July 1, 1931 to Dec. 31, 1933	2,559,010	2,224,553	410,277	326,575	560,111	555,410	87,262	737,428	585,284	20,114,775





TABLE IV. ALLOWANCES PER HEAD OF POPULATION (CONTINUED)

Annual Rate for period	Ontario July 1, 1867	Quebec July 1, 1867	Nova Scotia July 1, 1867	New Brunswick July 1, 1867	Manitoba July 1, 1870	British Columbia July 1, 1871	Prince Edward Island July 1, 1873	Saskat- chewan Sept. 1, 1905	Alberta Sept. 1, 1905	Total
Jan. 1, 1934 to										
June 30, 1936	2,559,010	2,224,553	410,277	326,575	582,400	555,410	87,262	769,600	613,600	20,321,718
July 1, 1936 to										
June 30, 1937	2,559,010	2,224,553	410,277	326,575	568,938	555,410	87,262	744,709	618,196	8,094,930
July 1, 1937 to										
June 30, 1938	2,559,010	2,224,553	410,277	326,575	569,007	555,410	87,262	744,793	618,255	8,095,142
Total Paid	112,315,027	91,329,745	24,953,119	19,084,377	19,051,331	14,399,008	5,574,491	18,332,315	14,409,294	319,448,707



TABLE V. SPECIAL GRANTS

Annual rate for period	Ontario Quebec July 1, 1867 to July 1, 1867	Nova Scotia July 1, 1867 to July 1, 1867	New Brunswick July 1, 1867 to July 1, 1867	Manitoba July 1, 1870 to July 1, 1870	British Columbia July 1, 1871 to July 1, 1871	Prince Edward Island July 1, 1873 to July 1, 1873	Saskatchewan Sept. 1, 1905 to Sept. 1, 1905	Alberta Sept. 1, 1905 to Sept. 1, 1905	Total
July 1, 1867 to June 30, 1870		82,698	63,000						437,094
July 1, 1870 to June 30, 1871		82,698	63,000	-					145,698
July 1, 1871 to June 30, 1873		82,698	63,000	-	100,000				491,396
July 1, 1873 to June 30, 1874		82,698	213,000	-	100,000	45,000			440,698
July 1, 1874 to June 30, 1875		82,698	213,000	-	100,000	57,066			452,764 <sup>1</sup> <sub>4</sub>
July 1, 1875 to June 30, 1876		82,698	213,000	26,747	100,000	29,658			452,103
July 1, 1876 to June 30, 1877		82,698	213,000	26,747	100,000	22,724			445,169
July 1, 1877 to June 30, 1878			150,000	26,747	100,000	12,953			289,700
July 1, 1878 to June 30, 1879			150,000	26,747	100,000	12,155			288,902
July 1, 1879 to June 30, 1880			150,000	42,400	100,000	9,457			301,857
July 1, 1880 to June 30, 1881			150,000	42,400	100,000	8,404			300,804
July 1, 1881 to June 30, 1882			150,000	43,700	100,000	8,074			301,774





TABLE V. SPECIAL GRANTS (Continued)

Annual rate for period	Ontario	Quebec	Nova Scotia	New Brunswick	Manitoba	British Columbia	Prince Edward Island		Saskatchewan	Alberta	Total
	July 1, 1867	July 1, 1867	July 1, 1867	July 1, 1867	July 1, 1870	July 1, 1871	July 1, 1873	Sept. 1, 1905	Sept. 1, 1905	Sept. 1, 1905	
July 1, 1882 to June 30, 1883	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
				150,000	45,000	100,000	7,869				302,869
July 1, 1883 to June 30, 1884				150,000	45,000	100,000	7,724				302,724
July 1, 1884 to June 30, 1885				150,000	45,000	100,000	7,601				302,601
July 1, 1885 to June 30, 1886				150,000	100,000	100,000	7,601				357,601
July 1, 1886 to June 30, 1887				150,000	100,000	100,000	7,601				357,601
July 1, 1887 to June 30, 1888				150,000	100,000	100,000	27,601				377,601
July 1, 1888 to June 30, 1890				150,000	100,000	100,000	27,589				755,178
July 1, 1890 to June 30, 1891				150,000	100,000	100,000	27,583				377,583
July 1, 1891 to June 30, 1892				150,000	100,000	100,000	27,493				377,493
July 1, 1892 to June 30, 1893				150,000	100,000	100,000	27,372				377,372
July 1, 1893 to June 30, 1894				150,000	100,000	100,000	27,032				377,032
July 1, 1894 to June 30, 1896				150,000	100,000	100,000	26,959				753,918



TABLE V. SPECIAL GRANTS (Continued.)

Annual rate for period	Ontario Quebec July 1, 1867 to July 1, 1867	Nova Scotia July 1, 1867	New Brunswick July 1, 1867	Manitoba July 1, 1870	British Columbia July 1, 1871	Prince Edward Island July 1, 1873	Saskatchewan Sept. 1, 1905	Alberta Sept. 1, 1905	Total for period
July 1, 1896 to June 30, 1897	\$	\$	\$	\$	\$	\$	\$	\$	\$
			150,000	100,000	100,000	26,616			376,616
July 1, 1897 to June 30, 1898			150,000	100,000	100,000	25,948			375,948
July 1, 1898 to June 30, 1901			150,000	100,000	100,000	25,880			1,127,640
July 1, 1901 to June 30, 1905			150,000	100,000	100,000	55,880			1,623,520
July 1, 1905 to June 30, 1907			150,000	100,000	100,000	55,880	468,750	468,750	2,686,760
July 1, 1907 to June 30, 1910			150,000	100,000	200,000	55,880	468,750	468,750	4,330,140
July 1, 1910 to June 30, 1911			150,000	100,000	200,000	55,880	375,000	375,000	1,255,880
July 1, 1911 to June 30, 1912			150,000	100,000	200,000	55,880	562,500	375,000	1,443,380
July 1, 1912 to June 30, 1913			150,000	2,703,226	200,000	155,880	562,500	375,000	4,146,606
July 1, 1913 to June 30, 1914			150,000	509,869	200,000	155,880	562,500	468,750	2,046,999
July 1, 1914 to June 30, 1917			150,000	409,007	200,000	155,880	562,500	562,500	6,119,661
July 1, 1917 to June 30, 1923			150,000	409,007	100,000	155,880	562,500	562,500	11,639,322





TABLE V. SPECIAL GRANTS (CONTINUED)

Annual Rate for period	Ontario July 1, 1867	Quebec July 1, 1867	Nova Scotia July 1, 1867	New Brunswick July 1, 1867	Manitoba July 1, 1870	British Columbia July 1, 1871	Prince Edward Island July 1, 1873	Saskat- chewan Sept. 1, 1905	Alberta Sept. 1, 1905	Total for period
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
July 1, 1923 to June 30, 1924				150,000	409,007	100,000	155,880	656,250	562,500	2,033,637
July 1, 1924 to June 30, 1925				150,000	409,007	100,000	155,880	468,750	562,500	1,846,137
July 1, 1925 to June 30, 1926				150,000	409,007	100,000	155,880	562,500	562,500	1,939,887
July 1, 1926 to June 30, 1927				150,000	409,007	100,000	155,880	750,000	562,500	2,127,387
July 1, 1927 to June 30, 1930			875,000	750,000	409,007	100,000	280,880	750,000	562,500	11,182,161
July 1, 1930 to June 30, 1931			875,000	750,000	5,379,035	100,000	280,880	625,000	468,750	8,478,665
July 1, 1931 to June 30, 1934			875,000	750,000	562,500	100,000	280,880	750,000	562,500	11,642,640
July 1, 1934 to June 30, 1935			875,000	750,000	562,500	850,000	280,880	750,000	562,500	4,630,880
July 1, 1935 to June 30, 1937			1,300,000	1,050,000	562,500	850,000	430,880	750,000	562,500	11,011,760
July 1, 1937 to June 30, 1938			1,300,000	1,050,000	562,500	850,000	430,880	4,250,000	562,500	9,005,880
									(a)	
Total Paid			11,726,980	17,880,000	22,144,233	10,700,000	7,112,824	23,531,250	17,343,750	110,439,037

(a) This total includes overpayments in subsidy made during the period 1914-16 totalling \$468,750 for which the Dominion Government holds a Province of Alberta treasury bill bearing interest at 3%.

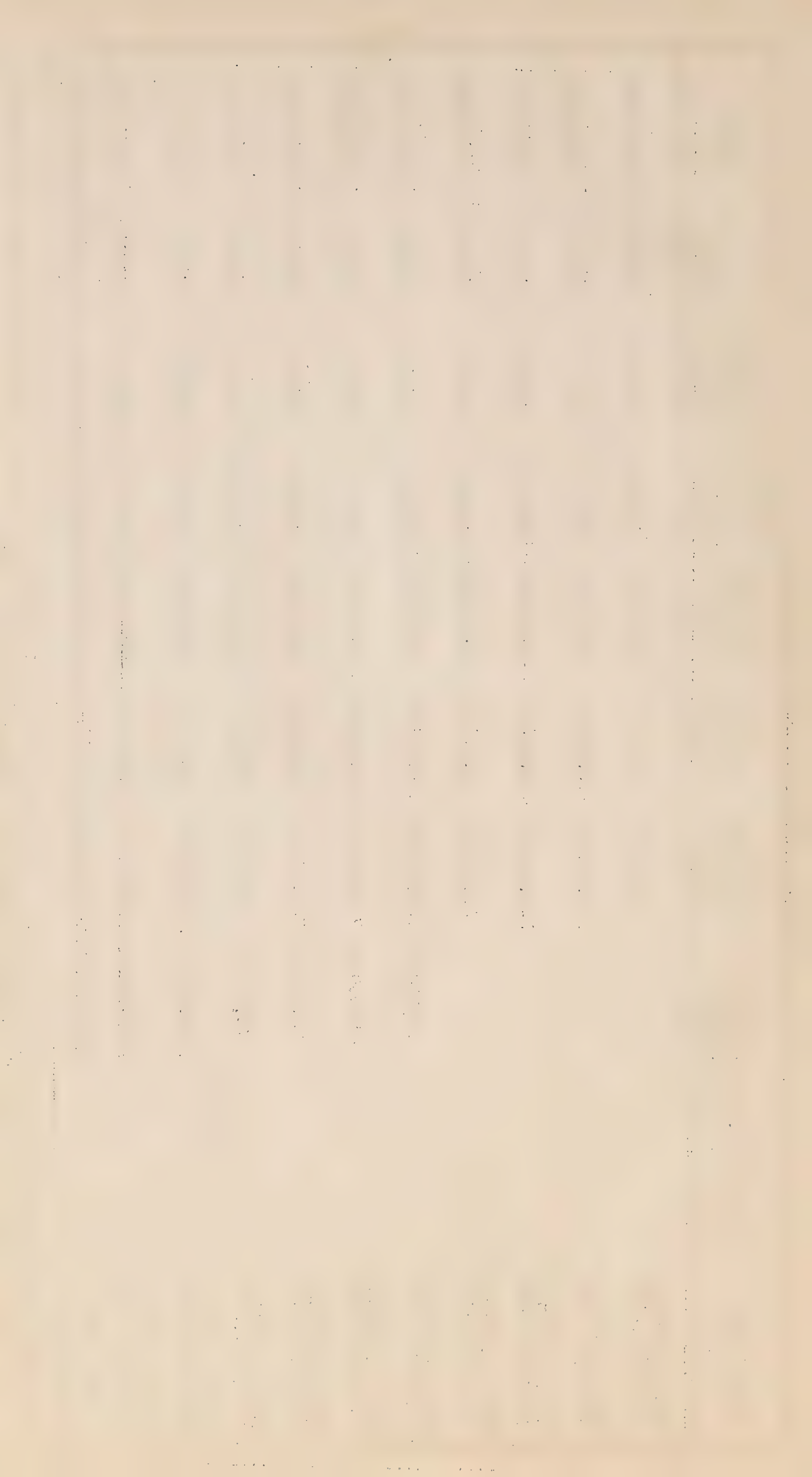


TABLE VI INTEREST ON DEBT ALLOWANCE

Annual rate for period	Ontario July 1, 1867.	Quebec July 1, 1867.	Nova Scotia July 1, 1867.	New Brunswick July 1, 1867.	Mani- toba July 1, 1870.	British Columbia July 1, 1871.	Prince Edward Island July 1, 1873.	Saskat- chewan Sept. 1, 1905.	Alberta Sept. 1, 1905.	Total for period.
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total amount of interest from date of admis- sion as a province to June 30, 1873,			( 47,780	291	70,813	64,290				
July 1, 1873 to )			(	-26,187	26,768	47,294	130,625			
June 30, 1874. )			(							
July 1, 1874 to )			(	22,163	21,812	42,050	78,864			
June 30, 1875. )			(							
July 1, 1875 to )			(	21,062	20,625	35,347	43,115			
June 30, 1876. )			(							
July 1, 1876 to )			(	19,854	19,653	25,217	41,594			
June 30, 1877. )			(							
July 1, 1877 to )			(	11,648	19,653	25,094	41,594			
June 30, 1878. )			(							
July 1, 1878 to )			(	2,695	19,653	25,094	40,077			
June 30, 1879. )			(							
July 1, 1879 to )			(	-466	19,653	25,086	39,668			
June 30, 1880. )			(							
July 1, 1880 to )			(	-1,126	19,653	25,019	39,668			
June 30, 1881. )			(							
July 1, 1881 to )		Quebec	(	-1,577	12,571	24,366	39,665			
June 30, 1882. )			(							
July 1, 1882 to )			(	-15	12,153	24,996	39,663			
June 30, 1883. )			(							
July 1, 1883 to )		602,669	(	-2,015	12,153	24,996	39,645			-369,090
June 30, 1884. )			(							
July 1, 1884 to )			(	28,172	14,859	29,151	48,794			443,471
June 30, 1885. )			(							
July 1, 1885 to )		127,461	(	38,025	173,075	29,151	48,794			611,670
June 30, 1886. )			(							
July 1, 1886 to )		127,461	(	31,922	165,860	29,151	48,794			598,479
June 30, 1887. )			(							
July 1, 1887 to )		127,461	(	31,370	165,596	29,151	48,794			597,663
June 30, 1888. )			(							
July 1, 1888 to )		127,461	(							
June 30, 1889. )			(							
July 1, 1889 to )		63,730	(	29,243	165,596	29,151	48,790			460,588
June 30, 1889. )			(							





TABLE VI INTEREST ON DEBT ALLOWANCE (Continued)

Annual rate for period	Ontario July 1, 1867.	Quebec July 1, 1867.	Nova Scotia July 1, 1867.	New Brunswick July 1, 1867.	Mani- toba July 1, 1870.	British Columbia July 1, 1871.	Prince Edward Island July 1, 1873.	Saskat- chewan Sept. 1, 1905.	Alberta Sept. 1, 1905.	Total for period.
July 1, 1889 to June 30, 1890.			52,831	27,328	165,596	29,151	39,173			314,079
July 1, 1890 to June 30, 1893.			52,819	26,559	165,596	29,151	38,790			938,745
July 1, 1893 to June 30, 1894.	142,414	127,461	52,811	26,560	165,596	29,151	38,790			582,783
July 1, 1894 to June 30, 1895.	142,414	127,461	52,811	26,557	165,596	29,151	38,790			582,780
July 1, 1895 to June 30, 1897.	142,414	127,461	52,811	26,546	165,596	29,151	38,790			1,165,538
July 1, 1897 to June 30, 1898.	142,414	127,461	52,811	26,528	165,596	29,151	38,790			582,751
July 1, 1898 to June 30, 1899.	142,414	127,461	52,806	26,510	178,947	29,151	38,790			596,079
July 1, 1899 to June 30, 1902.	142,414	127,461	52,806	26,481	178,947	29,151	38,790			1,788,150
July 1, 1902 to June 30, 1905.	142,414	127,461	52,806	26,465	178,947	29,151	38,790			1,788,102
July 1, 1905 to June 30, 1912.	142,414	127,461	52,803	26,465	178,947	29,151	38,790	405,375	405,375	9,847,467
July 1, 1912 to June 30, 1929.	142,414	127,461	52,793	26,465	381,584	29,151	38,790	405,375	405,375	27,359,936
July 1, 1929 to June 30, 1938.	142,414	127,461	52,771	26,465	381,584	29,151	38,790	405,375	405,375	14,484,474
Total Paid	5,455,763	5,706,634	3,393,794	1,503,495	14,876,956	1,962,905	2,719,214	13,377,375	13,377,375	62,373,511



Source: Dominion Public Accounts and Reports of Dominion Auditor-General

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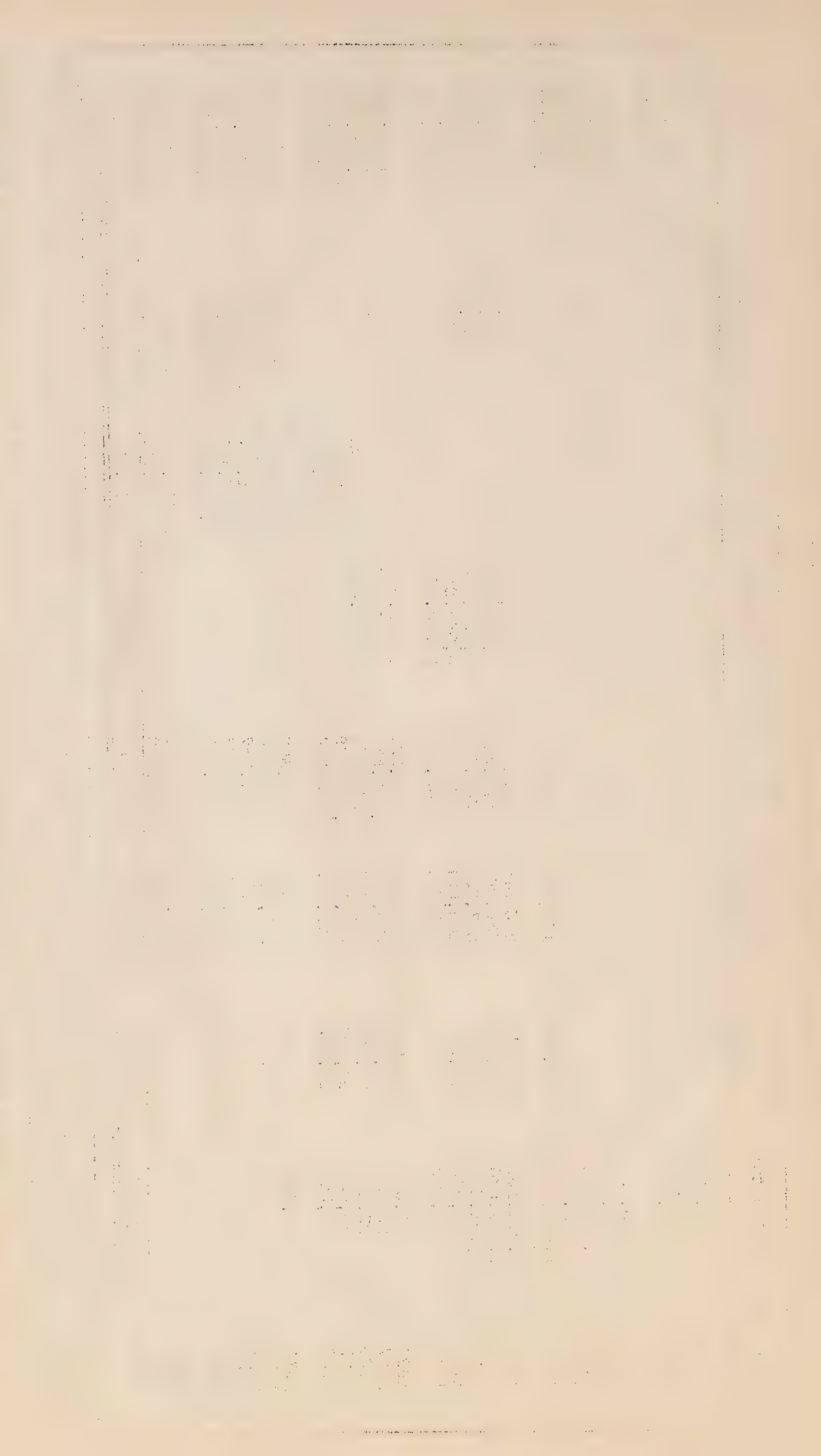
Fiscal Years Ending	Agriculture (a)	Combating Venereal Disease	Employment Offices	Technical Education	Highways	Old Age Pensions	Unemployment Grants-in-Aid	Total
1913	500,000							500,000
1914	699,999							699,999
1915	784,390							784,390
1916	885,130							885,130
1917	973,714							973,714
1918	1,053,311							1,053,311
1919	931,786		53,616					985,402
1920	1,301,746	88,768	169,207	186,501				1,746,222
1921	1,044,135	170,018	233,890	580,676	535,003		341,832	2,905,914
1922	1,104,570	177,536	239,269	720,336	3,339,008		498,321	6,139,040
1923	1,191,301	177,536	237,034	648,226	5,854,396		944,125	9,052,618
1924	900,002	173,354	200,001	888,390	4,066,210		4,128	6,232,085
1925	25,000	133,638	150,001	830,477	2,925,164			4,064,280
1926	25,000	113,549	149,999	944,337	1,649,328			2,882,213
1927	25,000	113,838	150,018	1,047,534	346,496		77,475	1,760,361
1928	25,000	96,020	149,999	965,954	1,224,395	131,452		2,592,820
1929	25,000	96,194	150,001	1,152,165		832,687		2,256,047
1930	8,389	96,225	149,999	413,286		1,536,615		2,204,514
1931	9,295	96,639	150,996	391,397		(c)		
1932		96,999	150,000	282,934		5,658,143	3,160,000	9,466,470
1933			150,001	201,737		10,032,409(c)	33,531,000	44,093,342
1934			150,000	129,073		11,511,123	33,809,000	45,671,861
1935			150,000	90,720		12,312,197	28,020,000	40,611,270
						14,940,740	43,368,000	58,549,460
1936			150,000	98,784		16,762,829	40,667,000	57,678,613
1937			150,000	76,222		21,147,629	51,517,000	72,890,851
Total	11,512,768	1,630,314	3,084,031	9,648,791	20,000,000	94,865,824	235,937,881(b)	376,679,927

(a) Grants to provinces under the Agricultural Aid Act, and the Agricultural Instruction Act. Does not include the limited financial assistance given to provincial departments of Agriculture in the form of a 50% contribution to the payment of prizes in connection with agricultural clubs and fairs.

(b) Does not include the proposed Dominion write-off of relief loans to Saskatchewan and Manitoba amounting to \$18,487,000.

(c) Includes a small sum for pensions in the North West Territories.















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